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THE FLOWERS THEIR

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RURAL DEVELOPMENT STRATEGIES



FARMERS IN THE DOMINICAN
REPUBLIC

[PHOTO: U. S. Agency for International Development]

A Viable Model for Rural Development

Albert Waterson

[Analysis of the global experience in rural development, especially in those developing countries where it has been most successful, points to six elements which represent a general model for viable development in rural areas. While country conditions differ considerably, these elements need to be considered if countries are to achieve sustainable results.]

Introduction

The successful planning of rural development sets difficult and demanding requirements for governments which attempt it. The formulation of sound plans for agricultural or rural development requires capabilities which are in short supply in poor countries. The gap between plan and performance in these countries is often attributable to ill-devised plans which are inconsistent, unrealistic or otherwise difficult or impossible to implement. Even when plans are relatively sound, however, the actual results may be poor because central planners merely incorporate in their plans what must be done to achieve aggregate input and output targets, without indicating with sufficient precision how, by whom and when it is to be done.

Often, what needs to be done is not done because of inadequate systems of communication between planners and technical ministries, departments and

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agencies; between entities of a national government, on the one hand, and regional and local government agencies on the other; or between farmers and others who are engaged in production, storage, marketing and other private activities related to agriculture and those in the public sector who are supposed to provide the supporting services. Between tradition-bound farmers and government officials a yawning gap often exists. It is difficult to cite a low-income country where communication among government entities, or between them and the private sector, is good: either necessary information is lacking, or it is not transferred to parties who should be using it due to weaknesses in administrative procedures. There are shortages of trained personnel, who cannot be everywhere at once, and frequently such people tend to gravitate to the capital city far from rural areas where their knowledge is needed.

The Agricultural Sector Implementation Project in which I am now engaged is concerned with devising methods for dealing with these problems and others which impede planned development in the agricultural and rural sectors. There is a sizable but scattered body of theoretical and applied knowledge obtained from research and experience around the world which provides information for improving the management of planned development in the agricultural and rural sectors.

The task of the Agricultural Sector Implementation Project is, therefore, to collect as much of the available information as can be assembled in order to lay a sound basis for improving the planning and management of agricultural and rural development. In the process of doing this we compare theory with practice in countries which have tried to plan their agricultural and rural development in a systematic way, and then analyze the results. As a first step, the lessons learned from this comparative analysis of experience are being incorporated in a handbook or manual which will lend itself to ready reference. Later phases of the Project will include seminars, training courses for teachers who can organize training for agricultural managers in their own countries, provision of consultancy services, and other possible activities and publications.

The following is extracted from a preliminary draft of our manual. It is intended to present in brief form some general principles which have emerged in the work so far. It must be emphasized that these are not based on an a priori theoretical approach, nor on novel ideas, but are derived from the analysis of experience which will be presented in more detail when the manual is completed.

Viable Rural Development

Viability in rural development depends on sustained growth in rural incomes, derived primarily from agriculture, that can meet the costs

of development programs. Although it may not have been intended, agricultural development has frequently benefited rich farmers more than poor farmers in developing countries because rich farmers have access to, and poor farmers often lack, the education, credit, irrigation and other things required to respond adequately to new opportunities. This has led the World Bank and other donor agencies and countries to give increasing attention to the promotion of development which provides poor farmers in developing countries with the infrastructure and services required to enlarge their share in the increases of agricultural output and income. However, prodigious difficulties stand in the way of mounting rural development programs which will provide a sustained increase in the level of welfare of a significant proportion of poor farmers specifically, and the rural poor in general. In most instances the social overhead facilities and services which governments provide to the rural poor contribute only marginally to economic growth — in the short run at least.

Experience shows that for rural development to be self-sustaining, it is essential that it include a self-supporting agriculture which can provide surpluses for financing social overhead facilities and services on a continuing basis. This is so not only because people's expectations become excessively inflated when central governments provide rural areas with water supply, drainage, roads, buildings and other health or educational facilities at little or no cost to the local inhabitants; it is also because most developing countries simply do not have the resources to finance the establishment and operation of such rural facilities indefinitely. It is true that agricultural development, by itself, often ends up by benefiting rich farmers more than poor ones; but it is also true that if agricultural development does not have high priority in a rural development program, then rural communities are unlikely to be able to accumulate their own funds from current income for clinics, schools, access roads, etc.

Many governments have devoted considerable sums to social overhead facilities in rural areas at the expense of allocations to improve agricultural production, and have ended up with schools without teachers, clinics without doctors, and chronic underemployment. In contrast, countries with rural development programs which have given priority to production and increased productivity have been able to generate the resources needed to finance social overhead facilities. For instance, communes in Mainland China have constructed health and education facilities from their own savings.

Since self-supporting agriculture is the key to self-sustaining rural development, a rural development model is needed which, unlike the usual one for agricultural development, benefits a substantial number of poor farmers and workers in rural communities. The elements of such a model, presented below, rely most strongly on the

experience in China, both on the Mainland and in Taiwan, in Tanzania and Israel, and to a lesser extent on that in some other countries including India, Pakistan and Malaysia. The following six basic principles appear to have general application to the attainment of viable rural development in Asia, Africa and Latin America.

(1) Labor-using agriculture. Since the most abundant resource of poor farmers and rural workers is labor which is often underemployed or unemployed, and since for them capital is relatively much scarcer than labor, low-cost labor-using techniques must be employed to the greatest extent possible in agriculture if poor farmers and workers are to benefit most. Moreover, the model requires that agricultural production use only small amounts of capital (including working capital) per unit of employment and output. Technologies must also be more productive than existing traditional methods. In Ethiopia, for example, the Chilalo Agricultural Development Unit (CADU) rejected the use of tractors and concentrated on improved animal-drawn farm implements that local artisans made and repaired. They improved the local plow, developed a new hoe and a stationary thresher, and introduced wheelbarrows and ox carts.

By increasing employment, labor-using agriculture which eschews costly capital inputs as much as possible becomes a medium for promoting a more equitable distribution of the benefits of agricultural growth than can be obtained from capital-using agriculture, since it necessarily requires a greater absorption of rural labor with a concomitant increase in incomes to those who provide the labor. (Farm improvements built up by a farmer's labor, which may be quite durable and might therefore be termed "capital," are not what is meant by capital here.) At the same time richer farmers, who tend to employ increasing amounts of capital in production, sometimes even when the practice conflicts with economic efficiency, thereby exclude themselves from the benefits of labor-using, capital-minimizing agriculture.

(2) Minor Development Works. Since even labor-intensive agriculture is unlikely to provide year-round full employment in rural areas with surplus labor, "employment generating" minor development works with high labor content (e. g., the construction of feeder roads, irrigation and other waterworks), as well as social overhead facilities (e. g., schoolhouses, clinical buildings) should be carried out with under-employed and seasonally unemployed rural labor. To minimize housing and transport costs, construction activities should be concentrated as much as possible in areas with the greatest excess labor, and timed to coincide with slack seasons for farm work. In addition, local materials should be employed wherever possible, because their use provides employment and reduces transport costs. In China, peasants have constructed irrigation, flood control, terracing, and other works and have re-forested local areas. In East Pakistan

(now Bangladesh), rural populations mobilized at the thana and union levels were used in a Rural Public Works Program to construct roads, bridges, embankments and other works; current plans emphasize small irrigation and drainage projects using low lift pumps and tube-wells. In India, small capital formation projects have provided supplemental incomes to small cultivators and landless agricultural workers who worked on them.

(3) Light industry. Small-scale, labor-using, light industries with low capital requirements should be established in rural areas to supplement employment opportunities in agriculture. However, this does not call for decentralization of all types of industry: such decentralization may be desirable from the point of view of regional development, but that is another matter. What is needed is the establishment of specific kinds of farm-related industry in rural areas. For best results, as experience in China and Israel has shown, light industry in rural areas should be mainly of two kinds: (a) The processing of agricultural commodities produced in the area concerned. These might include fruit and vegetable canneries, flour and rice mills, wood-working factories, slaughter houses, creameries and milk powder plants, sugar refineries, paper mills and processing units for cotton ginning and edible oils. (b) The fabrication of inputs for agriculture. These might include cattle, pig and poultry feed mills; fertilizer mixing plants, small tool-making shops; and clay, brick and tile works. For example, Mainland China has encouraged the proliferation of very small fertilizer plants with an annual production of usually less than 10,000 tons of ammonia, which is then converted into ammonium bicarbonate. The number of small cement plants in its rural areas has increased from about 200 in 1965 to 2,800 in 1972. Bangladesh's First Five-Year Plan calls for local production by small plants or cottage industries of sickles, scythes, spades, harrows and similar simple tools used by farmers. Wherever it was economically feasible, rural industry could also produce consumer goods, and some of the building materials for capital construction and infrastructure projects; but these industries should have a lower priority than the first two types.

The agro-industries of first type, i. e. those using agricultural inputs, all involve weight or bulk-losing processes, and therefore have locational advantages if established near their sources of raw materials. Some of the second type of agro-industries, those producing products intended primarily for the use of farmers in an area, have transport advantages when located near their markets. This is especially true if their products are heavy (e. g., brick, tile and concrete blocks) or bulk-gaining (e. g., harrows, chicken brooders and seed drills) or if their major inputs can be purchased in large quantities (e. g., fertilizer for mixing, or steel and wrought iron for tool

making). Many kinds of agro-industries are therefore well suited to small- or medium-scale production in rural areas.

(4) Self-help as the foundation. To be self-sustaining, the model must rest on a foundation of local self-reliance or self-help. This means that those communities which benefit from rural development must assume responsibility for raising a reasonable proportion of the resources. Otherwise, the total quantity of resources available for rural development in most poor countries is likely to fall short of what is needed. One way of doing this is to challenge local authorities and organizations to provide some funds through taxation or otherwise by offering government-matching grants, or other appropriately devised incentives, to those jurisdictions which gather what is considered to be an adequate amount of funds.

What constitutes a reasonable proportion for a community depends on the size of the population, the degree of economic backwardness, its growth potential and other relevant circumstances. For example, an interesting method for quantifying the elements in a self-help formula was devised for Indonesia. The central Government makes a development grant to each region (province) based on the following elements: (a) a per capita element, to take account of the varying sizes of population in the provinces; (b) a "growth potential" element, to foster the exploitation of natural resources; (c) a backward areas element, to help the development of transport, communications and infrastructure of poor areas; and (d) an incentive factor, which is added to or subtracted from the total of (a) through (c) depending on the increase or decrease in the local authorities' public savings rates. Where local areas are completely dependent on outside grants and loans, rural development planning becomes a matter of drawing up "shopping lists" of desires for outside funding without making the hard allocative choices which realistic planning requires. But if the regions, sub-regions and localities are to participate in the planning process, as good planning requires, it is likely that the quality and reliability of rural investment choices, as well as their management, will be improved if the people in the area involved are required to raise and risk significant quantities of their own resources.

At the individual level, the concept of self-reliance implies a full participation by small farmers, through their own organizations or through other institutions where they feel they can freely express their views and get a sympathetic hearing during the formulation of rural development plans and projects. It is idle to expect farmers to help implement programs which do not reflect their needs and objectives. In addition, the participation of farmers in savings schemes can represent both a means of self-help and in time a source of capital for investment in agriculture or other forms of rural production. However, small farmer savings programs have been rather limited; only in Taiwan and

Korea have they been large enough to supply important amounts of rural capital.

Kenya, Tanzania and other countries are increasingly emphasizing "self-help" as an integral part of their rural development programs. Mainland China has probably gone further than any other poor country in this respect. For example, when major campaigns were launched to control the five major parasitic diseases — malaria, filariasis, hookworm, kala azar and schistosomiasis — great emphasis was placed on having the rural "masses" take specific actions whenever possible, rather than have everything done for them by outside "experts."

(5) Organization for rural development. The preparation and implementation of a program of self-sustaining rural development is necessarily a long-term task which requires much planning and farmers' support. This means that it must be a product evolved by the country concerned, as well as its farmers; and by the same token it cannot be the product of short-term missions of outside international or national lending agencies. These agencies can do much to support rural development by financing components of useful programs, but it would be unreasonable to expect them to provide the continuing, long-term effort which viability requires. Only the country concerned can do that.

That effort also usually requires major adjustments in government organization. This is so because each ministry, department or agency tends to concern itself only with its own functional sector or sub-sector. However, a rural development program requires coordinated action among ministries, departments and agencies which cuts horizontally across the vertical organization typical of most governments.

Experience in countries like Mainland China, Taiwan and Israel makes it clear that where rural development has been adopted as national policy, it is normal for government structures and procedures to be adjusted accordingly. Each ministry establishes appropriate groups and administrative procedures to facilitate the coordination of its own activities with those of others on a continuing basis. At national and regional levels inter-ministerial bodies are established to synchronize the related activities of the different ministries and agencies. Thus, what are exceptional activities for ministries when individual rural development projects are involved becomes normal routine when rural development is national policy.

It is imperative, however, to start the organizational structures required as quickly as possible after the inception of a rural development program and to make them operable as soon as possible, for

it takes a long time to institutionalize the organizations and the hierarchical relations among them. As the sponsors of the Puebla program in Mexico discovered, it is too late to wait until a program has become effective before turning to the task of institutionalizing the organizational structure. Moreover, even when institutionalization begins early in a rural development program, abandonment of support before the organizations have proved themselves viable can jeopardize the future of the whole program. This happened in the Comilla program in Bangladesh.

(6) Development centers. Rural development must be seen as a part of regional and national development. If rural development is to proceed beyond minimal levels, a way must be found to bridge the wide gap between rural villages and the metropolis which is characteristic of less developed countries. To accomplish this requires the creation of a hierarchy of development centers, that is, a wide dispersion of small rural market centers, connected with a smaller number of small towns supplying a wider range of services, with these connected in turn to larger towns or small cities, and so on up to the very large city or cities. Most developing countries are deficient in these intermediate centers, even though their large cities may be growing rapidly.

Experience indicates that this combination — 1) labor-intensive agriculture; 2) labor-using minor development works; 3) agriculturally oriented light industry with low capital requirements; 4) an atmosphere of self-reliance; 5) early adoption and institutionalization of essential organizational arrangements; and 6) establishing a hierarchy of marketing centers — offers the best prospect for developing a self-supporting agriculture. This can, in turn, provide increased incomes for poor farmers and rural workers as well as the necessary savings for the social overhead facilities and services required for self-sustaining rural development. Although the ultimate solution to rural under-employment in many countries may lie in the permanent migration out of agriculture of labor not required for farm production, a viable program of rural development can provide preparatory training for rural workers who eventually migrate to urban centers, and spread the migration over time. Since self-supporting, labor-using agriculture is the backbone of self-sustaining rural development, it should have the highest priority of all the elements in the model; and since it is difficult to organize effective agricultural development based on labor-using techniques, time should be allowed to make it viable. Social overhead facilities and services should be correlated with the growth in the agricultural component over time to insure that earnings from agricultural output in the area will be sufficient to take over support of the facilities.

While this model draws mainly from the experience of a few countries where rural development has proved to be most successful, the model is not exactly like that used in any one of these countries.

Rather, its six elements constitute a composite based on particular methods which appear to have been fruitful in these countries, as well as in others. As an eclectic construct of the apparently successful elements in rural development programs, it is not presented as a model to be followed in its entirety by any country. Rather, these elements are intended to suggest attributes which a developing country could find useful in devising a rural development model of its own.

[Extracted from Chapter 3, Section D 4, of Managing Planned Agricultural Development, (draft pages 73-90), a manual under preparation by the Agricultural Sector Implementation Project, Governmental Affairs Institute, Washington, D. C., as of April 1975. This project is supported by the U. S. Agency for International Development.]

World Bank Policy on Rural Development

World Bank Staff

[The World Bank is lending increasing sums for projects in rural development, with a growing emphasis on raising productivity of the poorer farmers. This article presents Bank views on the national policies required to achieve that objective.]

Introduction

The World Bank is now the largest single external source of funds for direct investment in agriculture in developing countries. This has resulted from a deliberate shift in the Bank's policy and philosophy over the past five years. The share of agriculture has increased from 6% of total Bank lending in fiscal 1948-60 to 16% in fiscal 1971-72 and 24% in fiscal 1973-74, over a period when total lending has expanded several times. Lending to countries with per capita Gross National Product (GNP) below \$150 has increased from 22.5% of the total up to fiscal 1968 to 38.2% of the total in fiscal 1969-74. The number of projects providing benefits to the rural poor has increased. This increase has been facilitated by a growing interest in "new style" projects which: 1) are designed to benefit directly large numbers of rural poor; 2) take a comprehensive approach to small-scale agriculture and may include components that are indirectly as well as directly productive; and 3) have a sufficiently low cost per beneficiary so that they may be extended or replicated over broader areas.

The basic goal of such lending has been defined as the effort to bring about increases in the productivity of poor people by a target rate of at least 5% per year. The dimensions of the problem of poverty may be outlined as follows: some 750

million people in the developing world either have annual incomes equivalent to \$50 or less (85%), or higher incomes still below one third of their national per capita averages (15%). Of this population experiencing absolute or relative poverty, 80% live in rural areas and are chiefly employed in agriculture. Poverty is found both in the productive but densely populated areas of Asia, and in adverse environments like the African Sahel or the Andean altiplano, in roughly equal proportions.

The Bank's projected lending for agriculture and rural development during fiscal 1975-79 is approximately \$7,000 million for projects with total costs estimated at \$15,000 million. Assuming a lending program of this size, about half would be for agriculture and half for more broadly conceived projects in rural development. This total investment in Bank-supported projects would be one-fifth of the investment estimated as needed to expand the productivity of the rural poor in developing countries by at least 5% per year during 1975-79. These projected programs of the Bank would reach a total rural population of 100 million, of whom 60 million would be in the poverty target group.

The Policy Framework

A strong commitment to rural development policies by a national government is required if the impact on the problems of rural poverty is to be effective and broad-based. In some developing countries, present policies and institutional structures are so far from favorable to rural development that a policy shift could only follow a major political change. This is a key problem in situations demanding extensive land reform; it is even more so where the government itself is dominated by special interests unsympathetic to the objectives of rural development. In most countries governments are prepared to experiment at the project level, but some hold the view that rural development is technically difficult, or economically unsound as it may lead to slower growth in output and exports. Whatever the reasons, unless more governments commit themselves firmly to devising strategies and policies to raise the standards of living of the rural poor, the lot of millions of people will not improve significantly. Rural development objectives can be sought in various ways once there is firm commitment. So far, however, while numerous rural development projects and activities have been launched, the great majority of countries still operate without fully articulated policies, programs or plans for rural development. Their national policies are often inconsistent with agricultural and rural development.

Price policy is one example. It is important for rural development that the overall relationship between input and output prices within

agriculture, and the terms of trade between agriculture and other sectors of the economy, should be such as to stimulate growth in the rural areas. The Bank's analyses indicate that all too often government policies discriminate against development, particularly agricultural production, in the rural areas. They are designed to provide assistance to manufacturing and processing industries, or to raise government revenues. As such, they tend to hold down the prices of agricultural products relative to input costs making innovation unrewarding and highly risky for the farmer.

Many governments defend low prices for food on the ground that it is necessary to keep down the cost of living in urban areas. In some cases, governments seek to compensate the farmer through subsidies on inputs or credit. Frequently, however, such subsidies lead to undesirable distortions in the economy, are costly to implement, and are available only to those in contact with the organization through which they are provided. The small farmer, typically, is excluded from the advantages. In general, therefore, it is more beneficial or less costly to provide incentives by guaranteeing minimum prices than to subsidize inputs; it is also better to subsidize specific inputs in order to transfer specific technologies rather than to have general subsidies such as subsidized interest rates.

Fiscal policies in many countries have been inconsistent in their approach. They have tended to develop piecemeal in response to particularly urgent revenue needs and to powerful pressure groups. As such, they militate against the rural poor, who are either unrepresented or inadequately represented in the councils of government. In most developing countries, the distribution of public sector expenditure is heavily skewed in favor of urban dwellers; and in rural areas the relatively rich receive favored treatment. These inequalities are apparent across a broad spectrum of services.

Through high levels of indirect commodity taxation and low effective rates of income or property taxes, the poor often pay a considerably larger share of their income than the rich. In the rural areas, the failure to extract a reasonable contribution from the richer members of the community is most obvious in the case of taxes based on property ownership — especially landownership. A properly constructed tax on agricultural land is probably most desirable to mobilize resources for public purposes, since it can function without destroying incentives related to agricultural output. Yet few countries appear to have effective land taxes of any sort. Where they do, there is often widespread evasion through false classification of land potential and other ways.

A related and highly significant aspect of fiscal policy concerns cost recovery. Most countries are unable or unwilling to impose

charges on those benefiting from publicly financed investment or current services —on the ground that the poor cannot afford to pay. Seldom, however, is any attempt made to impose progressive charges which subsidize the poor by recovering proportionately more from the rich. Failure to impose adequate charges, in turn, severely limits the rate at which investments can be undertaken or services provided in the rural areas, even though the social and economic returns may be high.

Land policy. Land reform has obvious implications for the rural poor, since their subsistence depends for the most part on the extent to which they control land and the output from that land. But smallholders can increase their incomes considerably without land reform: 1) in densely populated areas where the tenancy ratio is low, the distribution of land is not excessively skewed and the private marketing system effectively reaches the small as well as the big farmers; and 2) by participating in settlement schemes in areas where there are large tracts of land which can be exploited productively. Land reform, however, must precede any massive input of resources into small farms or rural works where the incidence of onerous tenancy is high, the distribution of land is extremely skewed, or the rural oligarchy controls credit and marketing institutions, appropriating for itself the bulk of the input and even the income generated by rural works.

Regional policy. When rural development projects incorporating a variety of objectives and activities are contemplated the location of the units of nonfarm activities, requires careful consideration. Whereas agricultural activity is soil-bound, many alternative locations may be feasible for nonfarm activities. Economies of scale and external economies due to the interdependence of different activities can be very significant. Problems obviously arise in determining the optimal areas and populations to be served by a local market center, an electricity transmission station, a water supply system, a school, an extension office, a research station, a medical clinic, a feeder road, a bank or a credit cooperative.

Many of these service units are best located in towns serving the surrounding rural area rather than in every village. Alternatively, service units with a small capacity may be located in the villages, with larger units in towns and cities. As regional planning of rural areas spreads, it will have to be coordinated with urban regional planning. Increasing migration, and changes in the geographical distribution of the poor and the unemployed, add urgency to the need for a coordinated provision of public services in contiguous rural and urban settlements.

Regional development policies require a careful appraisal of the growth potential of different areas. Resources to finance minimum

standards of public services and infrastructure facilities should be available to all regions, particularly those that are most poorly endowed. Of particular importance is expenditure to identify the natural resources and growth potential of every area. It is a disturbing fact that, in vast areas of the developing world, comprehensive scientific surveys of natural resources have not yet been completed. Many regions remain poor because their resource endowments and potential for growth have not been properly established as a basis for investment.

Technology policy. A constant flow of new, field-tested technical knowledge relevant to smallholder production is a precondition for the continuing success of most rural development programs. Many of the poor live in a harsh environment where investments would produce little extra income until technological innovations can create reliable new opportunities. Major improvements in production technologies and product mixes must be evolved for arid lands, some mountain regions, areas of low-quality soils where shifting cultivation is practiced, and rain forest areas. Failing this, migration may be the only solution.

Inappropriate research programs and the inadequacies of adaptive research and extension have in many cases been major factors limiting the benefits reaching poor farmers. One common problem that is emerging is the failure to treat the subsistence farm as a system of cultivation, requiring a comprehensive approach to on-farm technological improvement. Another problem is the lack of attention to factors that are especially important to the small farmer. These include risk-reducing innovations, such as better pest- and weather-resistant crops; more intensive research into the so-called poor man's crops, including sorghum, millet, cassava, pulses and upland rice; and better advice on simple improvements in crop husbandry and soil and fertility conservation. Although more research has been done on small farm equipment than is generally supposed, the efforts have not been coordinated nor the results subjected to simple production engineering for manufacture. One approach to this problem, being pioneered by the International Rice Research Institute in the Philippines and other groups, involves dissemination of research results and prototype specifications for local manufacture.

Resource requirements. The commitment of resources to rural development and the extent to which promotion of rural development programs is reflected in national economic policy depends both on the nature and severity of the problem and on the resources which the nation can allocate to it. Where rural poverty is restricted to small pockets and resources are available, individual countries may follow relatively generous and variegated policies with regard to rural development. For instance, the fifth Five-Year Plan of Iran, covering

the period 1972/73 through 1977/78 (drawn up before the recent increase in petroleum prices) projected investment outlays for the agricultural sector equivalent to some \$900 million per year. The rural population of Iran is approximately 18 million. Of these some 8 million could be counted among the target group of rural poor as defined. It follows that if half of the total investment outlay projected for agriculture were to be directed toward Iran's rural poor, annual per capita investment among that group could be over \$50 per year.

By contrast, in Bangladesh over 90% of the population lives in rural areas and at least 40 million of these rural people must be counted among the poor. A feasible investment outlay for agriculture was assessed by a recent Bank economic mission at the equivalent of approximately \$300 million per year during the mid-1970s. Applying the same arithmetic, in Bangladesh less than \$4 per capita is available annually to help improve the productivity of the rural poor — about one-fifteenth of the amount available in Iran. While rural poverty is far from negligible in Iran, it clearly is not the dominant development concern that it must be for Bangladesh. At the same time, the resources available to Iran allow much greater latitude in its approach to rural poverty and permit a much faster pace of implementation.

Organization and Planning

There is a growing consensus that the effective planning and implementation of rural development programs require the following elements:

1. A national plan or program of action for rural development, together with supporting national and regional policies and adequate center-local financing arrangements.
2. A strong organization at the national level to coordinate vertically organized, central government sectoral departments.
3. Greater decentralization with effective machinery at the regional and local level to coordinate the sectoral activities of national departments operating in the region and regional and local departments.
4. Participation by the rural poor in the planning and implementation processes through local government, project advisory committees, cooperatives and other forms of group organization.

National rural development plans. Few countries have designed an overall plan for rural development. The task is not an easy one, for several reasons: 1) by definition rural development cuts across

all sectors; 2) rural programs, more than most other kinds of programs, ideally should flow from national and regional planning; 3) the kinds of supportive policies discussed earlier involve fundamental political considerations; and 4) the information base is poor.

Yet the advantages of a coordinated effort, focused on a national plan or program for rural development, are almost self-evident. Basic questions such as the financial, technical and administrative efforts to be allocated to the program, the areas for major concentration, the phasing and sequencing of activities, the linkages among sector programs and the developmental impact aimed for, can seldom be addressed effectively in a piecemeal fashion. At the present time, the effort tends to be fragmented and dispersed because there is no clear idea of: the overall size of the problem; the location, density and economic characteristics of specific target groups; or the developmental potential in the areas where rural poverty is concentrated. To obtain the benefits of planning, however, calls for great determination in the face of very real difficulties.

At the level of the central government, the concerns of rural development tend to cut across the conventional boundaries of department organization and responsibility. At the other extreme, regional and local planning involves the delegation of some central authority for program design and implementation to staff who are in touch with local requirements and are able to assess the local potential. Finally, it is increasingly recognized that to create a basis for self-sustaining development in rural areas requires that local resources — financial and human — be mobilized within a planning framework involving the active participation and assistance of local people. Local self-reliance implies involvement, as distinct from simply reaching the low-income rural population through development programs. This, too, calls for major new efforts in the many countries where the administrative system has been highly centralized. In view of the difficulties, partial planning for particular areas or regions may be more realistic and effective in some circumstances.

Coordination at the center. Some experience — although not a consensus — is emerging on the best approaches to organizational problems of rural developing planning. There appear to be advantages in creating a special unit or office, located directly under the president or prime minister, to coordinate national planning and program development for rural development. The experience is that such units are most useful when they coordinate efforts rather than if they themselves undertake the specialized work of other agencies. Coordination is particularly important in national-regional efforts to overcome the current lack of data and improve the information base generally; and in the activities of the major sector agencies. The success of a rural program or project initiated by one department or agency often

depends on complementary actions taken by another department. Experience in many countries suggests that inadequate preparation, including attention to those linkages, is an important cause of failure or disappointment. Finally, there is the very important and difficult task of ensuring that national and sector policies are in line with the overall objectives of rural development.

Decentralization and local coordination. If three major levels of government are considered —the central or federal, the state or provincial, and the district —the responsibility for planning, budgeting and executing rural development schemes usually rests at the provincial level in large countries and in small countries at the central level. Almost everywhere central planning agencies and ministries are playing an increasingly dominant role in directing and providing funds for rural development.

Opinion is now almost unanimous on the need for decentralization, i. e. strong planning and executive machinery for rural development at the district or subdistrict levels. The advantages are particularly great where there is a complex, multisectoral mix of activities that need to be properly integrated and scheduled. At the same time, local management provides the flexibility needed to modify programs as conditions become better understood or as circumstances change. More generally, the combination of authority, responsibility and accountability focused at the local level leads to much more active promotional efforts than otherwise, particularly in the more isolated regions which tend to be neglected under a highly centralized system. There is a clear trend in this direction in Algeria, Tanzania, Kenya and India, for example. However, apart from use of the special project authority, progress toward decentralization is generally still modest. At present, the proportion of expenditure on development which is allocated by local decisions is usually small —perhaps in the range of 10% to 20%. Budget authority continues to rest with the central authority, with a major part of the funds allocated on a departmental basis. Funds which provincial authorities can allocate out of their own revenues for rural development are generally hopelessly inadequate or insignificant. Even where there is a considerable measure of local autonomy in spending, reliance on central transfers is very great. Central governments usually curtail local powers to raise additional revenue directly from local sources.

Local participation. Local institutions, such as farmers' associations and cooperatives, have obvious potential advantages for coping with administrative difficulties in reaching the rural poor. On the one side, they provide some measure of participation through the involvement of their members in project design and selection. On the other, they perform intermediary functions which make it

possible to provide credit to larger numbers than can be done through official agencies. Group members can be held jointly responsible for repayment of credit, for acceptance of input supplies or other produce purchased from outside, and for delivery of the marketed surplus to the appropriate agencies (public or private). Local groups and associations can thus, in principle, reduce the need for government servants to deal with the individuals and families that comprise the target groups of rural poor.

Almost all governments support cooperative development for the rural areas in one form or another. Experience indicates that the performance of cooperatives has been mixed. In some, the entrepreneurial and trading skills required of the managers have been underestimated. With inefficiency and losses, the cooperative becomes a high-cost purveyor of services for its members. In some places, these difficulties have been accentuated by active and effective opposition to the cooperative from private traders, landlords and others to whom organization among low-income families is not advantageous. At times, such groups capture much of the benefit by working from within: for example, when membership of a cooperative is a condition for access to subsidized credit. Dishonesty among the officials has also been a major problem. But experience with cooperatives is not all bad, and such organizations provide the participation and impetus in rural development programs that is hard to secure in any other way. The work of nongovernmental agencies furnishes some of the more successful examples in fostering cooperation, usually working outside the framework of officialdom, and often in quite modest circumstances. The Bank expects to explore ways of working more closely with nongovernmental agencies where they have gained useful local experience.

Manpower and institutional constraints. The shortage of skilled staff to implement rural development programs should be a major consideration in their design. In many countries, particularly in Africa, the scarcity of skills is found at all levels: experienced and junior staff, technical and administrative. Even when the supply of trained manpower is more adequate, the number of personnel serving the rural areas is often small in comparison with urban areas. This may be because rural development has been assigned low priority or because the shortage of financial resources is acute. Typically, however, the salary scales, allowances and status of people working at the bottom of the development hierarchy in the rural areas are low. Their promotion prospects are uncertain. The lack of amenities in rural locations deters well-trained persons from staying there. Moreover, in many countries civil service practice does not respect and reward specialization. Therefore, the turnover of rural staff is very high; and officers appointed to supervise rural development are frequently generalists in the very early or the very last stages of their careers.

The remedies for this situation are obvious but seldom instituted. Staff working in the rural areas should be given better pay and allowances. Distinguished rural service should be given special recognition. Promotion prospects for specialized field staff should be improved. But competitive pay and career prospects must be regarded as complementary to the development of the motivation and commitment to service that accompany true professionalism. Manpower can often be used more effectively than it is at present. In particular, where good managers and higher-level staff are scarce, lower-level staff must be utilized much more effectively. The need for formally trained manpower is determined largely by the way in which the delivery of services is organized. Thus, many agricultural credit programs, following conventional forms of credit administration based on complex criteria of creditworthiness of the applicant, involve the processing of complicated forms and thus require large amounts of trained manpower. Modification of such procedures could free this manpower for other tasks.

If decentralization is to be effective, regional and local government, development authorities and cooperative-type organizations must be provided with the trained manpower to fulfill their obligations. The evidence indicates that present systems of training are weak, especially in the handling of relationships with the local population. Recruitment must be localized to strengthen the links between development services and the community. Training exercises for agricultural extension agents, health workers and cooperative staff must be relevant to the actual needs and priorities of particular local situations. More consideration also should be given to the possibility of training community opinion leaders, such as primary school teachers, religious leaders and village cooperative secretaries as agents of change. The number of people who need to be trained is so large that the only practical way is to adopt a multiplier approach by training the trainers. This could be done by establishing internationally financed regional training institutes. The institutes would prepare experienced staff to return to their countries and set up courses to train development managers, regional and project planners, cooperative staff, agricultural extension agents and other specialists.

Implementing Rural Development

It is notable that rural development schemes usually do not aim to provide benefits exclusively to the rural poor. Often the rural development objective is subordinate to the objective of increasing agricultural output (or marketed output). A program aimed at providing advice or extension to the small farmer will rarely exclude the medium-sized farmer, if by including him sizable increases in

output can be achieved. In many countries, avoiding opposition from powerful and influential sections of the rural community is essential if the program is not to be subverted from within; program design must take into consideration the existing social system if lasting benefits for the poor are to be achieved. Thus, in cases where economic and social inequality is initially great, it is normally optimistic to expect that more than 50% of the project benefits can be directed toward the low income target groups; often, the percentage will be considerably less. But, in all cases, project design should reflect the particular needs and conditions of the developing countries in question.

At one extreme, some countries are seeking to provide a "package" of minimum requirements to as large a group as resources permit. This may be described as the minimum package approach to rural development. At the other extreme are the more comprehensive programs which include social as well as directly productive elements. Because of the heavy financial and human resources required for such programs, however, experience with them relates mainly to specific area schemes (e. g., settlement schemes) rather than to nationwide programs. This is referred to as the comprehensive approach. Finally, there are a variety of more specialized programs which provide benefits to the rural poor.

The minimum package approach. Minimum package programs aim to provide generally modest but broad-based improvements in levels of living through increased agricultural output. Special attention is given to the sequencing of operations in the light of the development needs and requirements of the target groups on the one side, and financial and staffing constraints on the other. The great advantages of minimum package approaches are the promise of low-cost, extensive coverage with comparatively simple objectives and operating procedures. An initial emphasis on a broad-based increase in productivity, through a minimum level of institutional development, may be the most effective way of ensuring mass participation in a subsequent more complex type of program.

One Asian example of the minimum package approach is furnished by a recent seeds improvement project which the Bank is supporting in the Republic of Korea. Under it, 500,000 farmers are to be offered improved varieties of paddy, barley, wheat, soybeans and potatoes so that they can raise their incomes by a modest but significant 10% over a five-year period. The program includes provision for research to improve the quality of seeds and a system of seed distribution through the national cooperative organization to individual farmers. Credit and extension services, provided mainly through cooperative societies (to which 90% of Korean farmers belong), are already adequate. The

cost of the project, at 1973 prices, works out to less than \$50 per family.

The experience of those working with minimum package programs suggests some important conditions for the success of this approach: 1. A first-class technical package; 2. An intact social structure in rural areas, with certain people commanding general respect being prepared to act as model farmers without remuneration; 3. A land tenure system which does not discourage production above subsistence level; 4. A loose system of credit supervision, with satisfactory repayment rates enforced through firm and visible discipline in the case of government credit.

It follows that a different approach will be necessary where the technical package itself is not markedly superior to existing practice and where the initial requirements for raising productivity are more complex — for example, where the rural poor are stratified by access to land, farm type, level of skill and occupation. In practice there are few examples of this type of national program, despite its considerable advantage for countries with limited resources and massive rural poverty.

The comprehensive approach. While most schemes under this category are specifically designed for a particular area, a few countries have pursued concerted programs of rural development directed at a wide spectrum of the rural population. The programs have been characterized by careful definition of the needs and resources of the target population; detailed planning of preparation and implementation; phasing of multisectoral components; and extensive adjustments or complete restructuring of related institutions. Some of these programs, for example those in Japan and in Taiwan and Korea, have met with notable success. In other countries, such as Pakistan and Mexico, programs with similar ambitions are still at an early stage.

The success of the experience in Taiwan is reflected by the fact that during 1950-70 output in the agricultural sector grew by 5% per year. The greatest increases were registered on the 890,000 farms with less than one hectare of cultivated land. These represent two-thirds of all farms and one-third of the cultivated area. The farm income of this group exceeded \$300 per capita in 1970. The Taiwanese experience is characterized by the rapid adoption of new technology by a large number of small farmers; most of the increase came from improved yields, derived from the use of better inputs and the expansion of irrigation. It is generally agreed that the success would not have been achieved without the organization of farmers into associations in a federated three-tiered system of multipurpose organizations. The farmers' associations have

become an important source of institutional credit, and this appears to have been one of the major factors responsible for the acceleration of agricultural development. Another example of a comprehensive national approach merits attention on grounds of general importance — that of the People's Republic of China. Although its application to other countries and regions is a subject for debate, the Chinese achievement itself is no longer in question. It appears to have been based on broad acceptance of communal and national goals over individualist or personal goals.

A comprehensive approach to specific area development is found in many countries. Basically, arguments in its favor stem from the often complex nature of the target groups which calls for specific programs locally prepared and tailored to local conditions. Technical considerations related to specific requirements for agricultural improvement also tend to favor placing development schemes in the framework of an area. Even when the focus is on promoting a single product, the very nature of modern agriculture may require a large number of inputs to be put together by private or public effort: improved varieties of seeds, or animal breeds, irrigation facilities, fertilizers and chemicals, energy and equipment, credit, extension, storage, marketing and transport services, and price incentives. One type of area approach is illustrated by a variety of single-product projects, such as the promotion of tea in Kenya, groundnuts or tobacco in Tanzania, cotton in Mali and Tanzania, and coffee in Papua New Guinea. The special advantage of comprehensive area development projects, however, is the opportunity to focus directly on the needs of the rural poor through diversified crop and integrated farming systems. The development of these activities can then be linked with training and social services, and possibly with rural works programs.

Typically, such schemes operate through a well-funded and well-staffed special authority outside the local civil service structure, often with little community or other direct local participation. Special arrangements may be made to mobilize resources for schools or medical facilities; and new settlement may include provision of basic amenities, like water supplies. The Gezira settlement scheme in Sudan had many of these features. Begun in the 1920s, it extended over nearly 2 million acres of irrigated land by 1970, and directly benefited 75,000 farm families. Settlement schemes have a number of special advantages. They provide an opportunity to break through modes of thought and action that are often a handicap in traditional, closely integrated and inward-looking rural communities. They also afford an escape from communities where power is concentrated in the hands of a few large landowners who are opposed to measures that would reduce their special status and are likely to raise their labor

cost. The opportunity may also arise to select well-motivated settlers; and, especially where new crops are involved, the package of technical advice and services made available is likely to be accepted more readily.

A model of another type is provided by the Puebla project, developed for a relatively homogeneous Mexican Province with about 50,000 small farmers. The project, begun in 1967, is more voluntaristic in conception. The Puebla approach has stressed the provision of new technical packages for smallholder farmers based on local adaptive research, mostly for maize. Much of the initial work concentrated on identifying problems concerning soil, seed, disease and cultivation practices, and on training technicians to work in small farm development. For participating farmers, the increase in maize yields (net of climatic effect) averaged 9.5% per year over the 1968-72 period, raising farm family incomes by approximately \$110. The total cost of the project over the six-year period to 1974 was approximately \$1 million, or \$135 per farmer receiving credit. The Puebla project has not, however, been very successful in integrating its activities into the fabric of regular governmental services, and banks must still be prodded to lend to small farmers. The Puebla research and extension functions are largely outside regular government channels. Organizations which articulate local farmers' opinions and concerns have not emerged.

A final example, is the Lilongwe Land Development Program (LLDP) begun in 1967 in Malawi. It is the focal point in a large-scale area development approach to rural transformation. At present, the program covers an area of 1.15 million acres with a population of 550,000, most of whom are small farmers. It was organized as a special department of the Ministry of Agriculture, with access to the services and staff of other departments. The program has concerned itself with many activities, most notably with physical planning of subregional centers for markets and services; provision of regional infrastructure (roads, bridges, water supplies, health clinics and service buildings); consolidation of landholdings; community organizations and village committees for local participation in decision making and planning; and credit schemes — initially unsecured loans to individuals, but with progressive adaptation to group credit systems based on shared responsibility for repayments. Considerable importance is given to agricultural extension and to the training of extension workers. A full assessment is difficult to make at this stage: it is expected that by 1980 net income per farm family in the project areas will increase 75% accompanied by roughly doubled yields of maize, smaller increases for other crops, and improvements in animal husbandry.

There are perhaps three major potential dangers with such comprehensive area development schemes: 1. The schemes may

concentrate a disproportionate share of resources on benefits to a group that is small in relation to the overall national target group.

2. The schemes tend to suffer from a program design that is too ambitious and complex, calling for exceptional leadership that cannot always be made available on a sustained basis. 3. They may distort priorities in the allocation of resources among sectors.

The need for quality staff and management in such schemes is often met by providing foreign technical and financial assistance; donor agencies have tended to favor providing large numbers of highly qualified experts. But high-powered management, with or without foreign backing, sometimes means that too large a part of the available resources is taken for "showpiece" or "enclave" projects; and project objectives may be unnecessarily ambitious. The comparative affluence in management and finance enjoyed under many of these projects during the initial period often does not survive the transfer of functions to the local administrative system. The indigenous regional administrations may not have the capability to carry out the necessary policy and coordinating functions at the regional headquarters. Institutions to handle the commercial aspects of the programs, such as agricultural credit and input and output marketing, either do not exist — since the programs have handled these functions — or do not yet have the administrative capability to manage the activities on a large enough scale. Further, the local organizations and local administrative units developed under the programs may not correspond to the existing local governmental institutions, raising difficult questions related to the maintenance and expansion of the various local services. These considerations should help to foster greater concern for training activities, which are a particular weakness of programs that rely heavily on expatriate manpower.

A special aspect of the resource allocation problem in comprehensive multisectoral activities concerns the balance of outlays between sectors. Projects aimed at the rural poor are likely to contain a mix of elements — directly productive components, as well as social services and amenities. In principle, the different sectoral elements need to be consistent with individual sector objectives, and should also conform to a logic that is internal to the project or program as a whole so that the components are mutually reinforcing. But the principles involved in balancing social and economic components are more easily stated than observed, and in practice a good deal of judgment regarding the inclusion of items is called for. The indirectly productive impact of such services as better health care and environmental sanitation is inherently difficult to measure, and the base of good research studies for judging costs and benefits is lacking. Such difficulties add to the importance of making sure that the social service components of a rural development project are the least costly among alternative methods, that they are potentially replicable over broader

areas, and that the recurrent costs involved can be sustained within the limits of the fiscal resources available.

Two other points are worth making about the inclusion of social services and amenities in rural development programs. Firstly, there is evidence that rural people rate certain social or amenity services — particularly health and access to water — very highly indeed, sometimes above productive benefits, as a quick means of improving the quality of life. Participation fostered through community involvement in the design, construction and use of such facilities may be the first step toward the acceptance of proposals for change relating to production techniques and methods. Secondly, it is worth recalling that the allocation of resources among sectors (as among regions) is likely to reflect a balance of considerations in which economic criteria may not be the most important. Concentration of resources in more productive areas may increase interregional inequality. A relatively strong emphasis on interregional equity may be justified where the poorer regions contain a heavy concentration of the rural poor (for example, in northeast Brazil) or for countries with access to an unusually generous flow of resources (like Algeria).

Sector and special programs. The types of activity described under this heading are usually organized on a nationwide basis. They may or may not be tailored to meet the specific needs of the rural poor. In practical terms, it is usually impossible to confine the benefits to a particular class of beneficiaries, even if that were desirable. Thus, roads built under a works program are available for the benefit of all, as are schools and health facilities. An important feature of specialized sectoral programs is that they generally do not, by themselves, constitute a basis for self-sustaining increases in productivity and income.

Rural public works have been receiving increasing attention. Rural works programs can provide direct and timely income to those needing it most, while creating productive infrastructure at low social opportunity costs. In practice, however, such programs have rarely developed their full potential. A review of past and ongoing rural works programs indicates these recurring weaknesses in the design and implementation of such programs: 1. Projects may be poorly selected and designed. Inadequate management and supervision may produce a "make-work" character and consequent high-cost structures and low morale. 2. The portion of total program expenditures going to unskilled workers is frequently less than it might be because unnecessarily equipment-intensive construction methods are used. Even in the best designed and managed programs, the wages of unskilled labor will not be much above one-half of total expenditures. 3. Some programs have tended to extend into the

peak demand periods for agricultural labor. 4. When "self-help" elements are included, the poor usually are required to contribute their labor with very small or no wage payments. Payment in kind is administratively cumbersome and frequently very inefficient for the workers as they resell inappropriate commodities at a large discount. 5. The appropriate blend of local initiative with central control is difficult to achieve. 6. Influential groups may alter programs to increase their own benefits at the cost of the poor.

The most important general conclusion is that public works need to be part of a larger employment and development strategy. They have to be used in coordination with other programs and activities if their potential is to be developed fully. Basic decisions on such issues as target groups, wage levels, location and type of projects, taxes or other measures to recoup secondary benefits, and program administration would then be made in conjunction with national or regional development planning. In particular, such planning must ensure that the output of wage goods increases to match the higher demand for such goods created by any large-scale works program. Public works activities should also be coordinated with specific local development schemes. Public works, particularly because they are decentralized in implementation, provide an excellent opportunity to begin local-level planning; but this potential generally remains unrealized.

Agricultural credit schemes illustrate some of the difficulties encountered in sectoral programs. In particular, large farmers have been the main beneficiaries of institutional credit. Commonly, 60% to 80% of the small farmers in a given country have little or no access to institutional credit. Moreover, the available supply of credit is heavily skewed in favor of short-term credit, particularly in the case of small farmers. Although not always essential, the conditions under which credit is needed and can be used effectively are characterized by: 1. Clear opportunities for economic gain from adoption of new production technology or other improvements. 2. Widespread recognition and acceptance of such opportunities on the part of the farmer, along with access to training in the necessary skills. 3. Delivery systems which provide ready and timely availability of the inputs required, and market outlets for farm production.

There appears to be scope for using institutional credit to replace or augment credit from traditional sources in order to check monopoly situations which cause excessively high interest rates; to overcome inelasticities in the supply of credit which become apparent when new opportunities emerge; to ease the seasonal financial problems of rural households; and, most importantly, to encourage small subsistence farmers to raise their output and enter the commercial sector. Furthermore, land reform, if pursued widely, could sharply increase the

credit needs of the former tenants who were previously supplied by landlords. In this general context, several recent experiments warrant further examination, including the "passbook" scheme in Pakistan, the Cooperative Production Credit Scheme in Kenya, and the Masagana 99 program in the Philippines.

Other specific sector programs — including notably those in education and technical training but also those concerned with the provision of feeder roads, village electrification, water supplies, health facilities and the promotion of rural industry — may be important means of conveying benefits to the rural poor. Choosing appropriate design standards suited to rural conditions is a serious problem for a number of these services, and in some cases, pending further technical development, the extension of facilities to villages will remain prohibitively expensive. One reason for the neglect of the small-scale systems suitable for the rural areas is the convenience and lower unit cost of preparing and appraising projects for larger undertakings that are better suited to an urban environment or, in the case of transport, for interurban connections. Here too, however, recent research indicates some promising new approaches calculated to reduce difficulties in the future.

The promotion of rural industry merits special attention. In many countries existing village crafts are disappearing rapidly, while modernization of agriculture creates a demand for new inputs and consumer goods which could often be produced locally. Modernized local industrial structures, geared to serving the rural areas and with linkages to national industry as well, could provide employment, increase incomes, slow rural-urban migration, increase the supply of goods and services to farmers at lower cost and generally stimulate further rural and regional development. Modernization of agriculture creates a demand which has great potential for pulling certain categories of industries into rural towns. These industries are, in general, small and could therefore be decentralized; but their interaction with medium and large enterprises is, in the long run, essential. At the same time, with an industrial base to provide for continuing expansion and development, regional centers can serve to attract and retain professional and technical skills that otherwise tend to concentrate in the major cities. It would seem natural to upgrade the skills and organization of village blacksmiths, carpenters, shoemakers, weavers and potters, so that they could assume new manufacturing and service roles in modernizing rural communities.

Thus, in the same way that agricultural extension services are considered essential for introduction of new technology in agriculture, industrial extension should also be seen as a necessary element in developing rural industry. Essential characteristics of such an extension service are mobility and relevance to rural industries

in meeting local demands. An important aspect of any such program must be the development and support of the existing industrial structure in order to capitalize on the base of technical and entrepreneurial skills which today exist in villages, market towns and urban centers. Development of rural industries requires a nationally supported program to provide inputs like credit, raw materials and equipment, electricity, training for technical and managerial skills, and efforts for research, development and engineering. Provision of such a package is, in principle, facilitated by linking efforts with a rural development program.

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Local Organization for Rural Development in Asia

Norman T. Uphoff and Milton J. Esman

[The role of local organizations in furthering rural development is analyzed on the basis of 16 case studies of Asian countries. The degree of local organization in rural areas is positively associated with agricultural progress; the analysis indicates why this should be true, and the requirements for successful local organization.]

Our task in the study described here has been to examine and assess the contribution of local organization to rural development, and in particular organizations which have some accountability to a local constituency, which represent local interests, and in which local people enjoy opportunities to participate. To do this, it is necessary to define the kinds of organization which are both local, in this sense, and also contributory to rural development. Local government bodies are included in the definition, along with cooperatives and other kinds of farmers' associations. Branches of central government administrative agencies operating at the local level are excluded, however, because they are not locally accountable but are controlled and guided by higher levels of government. Private firms, and local branches of political parties, are not included in the formal definition of local organizations used in the analysis of national data (see

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Table 1), although the latter appear in some of the subsequent discussion. Purely social groups not affecting rural development are excluded.

It is our purpose to summarize, analyze and draw lessons from recent Asian experience in building and guiding organizations oriented toward rural development. The Rural Development Committee at Cornell University has undertaken a comparative study of rural local organizations with a series of 16 country case studies in Asia to determine how such organizations operate in specific countries, and to analyze their role in rural development. These studies in turn have been analyzed to reach some general conclusions about that role which are summarized below.

Empirical Relationships Between Local Organization and Rural Development

The relationships between local organization and rural development are, not surprisingly, diverse, intricate and involved. First, rural development is not one-dimensional but rather encompasses a range of productivity and welfare achievements. Second, local organization is usually a complex system, encompassing various structures. Its value depends on the quality as well as the extent of its functioning. Further, the relationship between local organization and rural development is interactive; improvements in each appear to strengthen the other. In any case local organization is obviously not the only factor affecting rural development given wide variation in the levels of resources.

Local organization is difficult to measure as a variable. There are structures as diverse as the panchayat in India, the Kabupaten and Kecamatan in Indonesia, the barrio in the Philippines, townships in Korea and Taiwan, communes in China and Yugoslavia, village councils in Egypt and Sri Lanka, etc., plus the cooperatives or farmers' associations in these and other countries. After consideration of the cases, we concluded that the most significant aspects of local organization for analytical purposes were: 1.) the effectiveness of organizational linkages reaching down to and up from the various levels of pertinent organizations; and 2.) the relative importance of these organizations in rural development. Two separate analyses were devised for getting at these variables, putting the knowledge gained from the case studies into a comparable form and quantifying with numerical scores.

It is abundantly clear that local institutions in isolation and without external support cannot contribute significantly to the productivity and welfare of their constituents. Thus any consideration of the role of local institutions in rural development must focus on the relations,

or linkages, between local institutions and other structures which provide services, allocate resources and exert influence. Linkage among different levels of organization results from interaction and exchange — of information and other resources — on a regular and reliable basis. To make estimates of the strength of these linkages from the documentation of the case studies, we evaluated and gave numerical scores (from 0 to 5) for the extent and effectiveness of communication and influences, both downwards to and upwards from each of four levels of government below the national center. The sizes and names of these governmental units differ from country to country, but generally speaking, the following levels of organization were found:

1) The local or village level, with population units usually in the range of 500 to 5,000. Sometimes this would include several "villages." Examples are barrios in the Philippines, brigades and production teams in China, *desas* in Indonesia, hamlets in Japan and Korea, *kampongs* in Malaysia, *kibbutzim* and *moshavim* in Israel, "local communities" in Yugoslavia, *panchayats* in India.

2) Next came a township level, with population generally in the range of 20,000 to 50,000 though possibly between 10,000 and 100,000. Some of the terms used are *amphoe* in Thailand, blocks in India, communes in China and Yugoslavia divisions in Sri Lanka, *kecamatan* in Indonesia, *mukim* in Malaysia, *mura* in Japan, townships in Korea and Taiwan, or unions in Bangladesh and Pakistan.

3) Above this is the level usually known as the county or district level, with population of one or more hundred thousand. Other designations are *changwat* in Thailand, counties in China, Korea and Taiwan, *kabupaten* in Indonesia, sub-province in Turkey, *thanas* in Bangladesh, and *tehsils* in Pakistan.

4) The largest sub-national level will have population generally in the millions and the common designation is province; we also find governorates in Egypt, prefectures in Japan, states in Malaysia, or districts in Bangladesh, India and Pakistan. (Provinces in China and states in India go up to 100 million in population.)

The direction of linkage was viewed in terms of whether the initiative came from above or from below; the strength of linkage varied according to the reliability with which upper or lower levels of organization could expect that their requests or demands would be complied with, that information would be passed on as needed, that cooperative efforts could be expected. Table 1 gives the country scores, both downward and upward between adjacent levels, and a total linkage score for each country (columns 2 to 4).

A second way of comparing countries was to analyze which channels perform which rural development functions. The scoring method apportioned a total of 100 points — 10 points each for 10 functions — among the four channels indicated in Table 1: local organizations (as defined above), higher government levels, private firms, and political parties.

These functions are: planning and goal setting (10); resource mobilization (10); provision of services — water (10), fertilizer (10), credit (10), extension information (10), marketing (10); integration of services (10); control over bureaucracy serving rural development (10); making claims for more and better support of rural development (10).

The total scores for each channel (see Table 1, columns 5 to 8) represent its relative contribution to the performance of these rural development functions. This gave a reasonably reliable estimate of the relative importance of local government and associated organizations of interest. (It should be noted that all country scores add up to 100 so there is no evaluation of how well functions are performed but only who performs them.)

Table 1: Evaluation of Local Organization for Rural Development
(Numerical Scores)

	Total Scores ^a	Strength of "Linkages"			Relative Importance of Channels			
		Downward Linkages	Upward Linkages	Total for Linkages	Local Organizations ^b	Higher Government ^c	Private Firms	Political Parties
<u>More Locally Organized</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Yugoslavia	89	18	14	32	57	13	16	14
Israel	86	18	14	32	54	34	6	6
Japan	82	17	9	26	56	23	15	6
China	71	19	10	29	42	41	3	14
Sri Lanka	70	16	12	28	42	34	11	13
Taiwan	69	17	9	26	43	40	12	5
Egypt	67	16	8	24	43	43	8	4
South Korea	52	16	4	20	32	52	16	0
Punjab (India)	50	15	8	23	27	32	36	5
<u>Less Locally Organized</u>								
Philippines	41	14	7	21	20	45	32	3
India	40	12	6	18	22	41	29	8
Turkey	37	14	8	22	15	44	33	8
Bangladesh	35	12	5	17	18	44	35	3
Indonesia	35	9	4	13	22	55	22	1
Thailand	32	10	5	15	17	50	33	0
Pakistan	29	13	4	17	12	48	37	4
Malaysia	25	14	5	19	6	62	27	5

a. Total scores in column 1 are the sum of figures in columns 4 and 5.

b. Local government at village, township and county levels; plus cooperatives, farmers associations and irrigation groups.

c. National, provincial and other government bodies above the county level.

Finally, a total score for each country, in the first column of Table 1, adds the total linkage scores plus the scoring given for the relative importance of local organizations. This total score indicates primarily the degree of "localness" in organization for rural development, and secondarily [because the numerical range is smaller] the effectiveness of the inter-level linkages. Given these overall scores, the countries were divided into two major groups with eight in each group. It is rather clear which are the "more locally organized" and which the "less locally organized" cases with respect to rural development activity. (The Indian state of Punjab is also included in the table; it is of particular interest as a case study in rural development, and its scoring and evaluation are quite different from the rest of India.)

The "more locally organized" cases are not a homogeneous group. Their per capita incomes range from about \$150 to \$1,800 (in 1970) and their population sizes, cultural traditions, and present political orientations are equally wide ranging. In almost all cases, the extent of local organization involved in rural development tasks is a consequence of policies and investments made by national leaderships over a period of years. The mura (administrative village) in Japan and the commune in China, the village councils set up by colonial authorities in Sri Lanka (Ceylon) and by military authorities in Egypt, the Farmers' Associations in Taiwan and the cooperatives in Korea, the kibbutz in Israel and the neighborhood associations in Yugoslavia all were created at least twenty years ago.

There is a clear relationship between the measures of agricultural productivity and progress, shown in Table 2, and the grouping of cases by degrees of local organization. There are three measures of agricultural performance: (a) average cereal yields per hectare; (b) comparison of increases in average cereal yields over a 20-year period; and (c) comparison of increases in average cereal yields over a 20-year period; and (c) comparison of increases in per capita total agricultural production over this period. We found the "more organized" cases well ahead on all three criteria — the more organized cases generally achieved much higher percentage increases from their already high level of production. These differences in performance are attributable in large measure to the use of improved agricultural technologies. The more organized cases were using 8.5 times more fertilizer per hectare in 1961-65 (34 compared to 4 kilograms per hectare) and still more than four times more in 1971 (65 compared to 15). The more organized cases have somewhat more of their cultivated area under irrigation (32 percent compared to 22 percent). When it comes to adoption of new high-yielding varieties of cereals, we find that almost all the countries using the recently-developed HYVs are among the less organized cases because the more organized cases have been experimenting

with and extending their own improved varieties for decades. It is clear from the yields attained in the more organized cases that they have been more progressive in technological innovation and adoption.

Table 2: Summary Indicators of Agricultural Productivity and Progress
(Rank orders in each column given in parentheses)

Cases in order of "local organization"	Average yields for cereals 1970-72 (kilograms per hectare)	Index of increase in cereal yields by 1970-72 (1952-56 = 100)	Index of increase in per capita total agricultural production (1952-56 = 100)
Yugoslavia	2,635(6)	233(1)	152(2)
Israel	1,873(10)	165(4)	217(1)
Japan (1960)	5,179(1)	147(8)	124(5)
China	1,789(11)	121(14)	117(8)
Sri Lanka	2,288(7)	159(5)	100(14)
Taiwan	3,686(3)	141(10)	122(6)
Egypt	3,935(2)	156(6)	111(10)
South Korea	3,392(4)	198(2)	140(3)
(Punjab, India) (2,135)		(196)	(248)*
Average for more organized 3,097 cases (N=8)		166	135
Philippines	1,261(14)	127(15)	101(13)
India	1,130(16)	140(11)	104(12)
Turkey	1,393(13)	129(13)	109(11)
Bangladesh	1,557(12)	110(16)	86(16)
Indonesia	2,062(8)	136(12)	96(15)
Thailand	1,939(9)	143(9)	119(7)
Pakistan	1,232(15)	166(3)	116(9)
Malaysia	2,842(5)	149(7)	134(4)
Average for less organized 1,677 cases (N=8)		138	108

* Per capita food production.

Using standard measures for nutrition, health and education [omitted from this extract] we found higher attainments in the more organized cases. This finding has to take respective income levels into account, since richer countries should be able to provide more welfare services. Per capita income levels are considerably higher in the more organized cases now, though they were not higher 20 years ago.

	1953	1970
More organized cases	\$74	\$352
Less organized cases	\$78	\$119

When we compared rank-orderings with respect to 1970 income levels we found that the welfare differences were largely in the direction of the more organized cases ranking higher in welfare terms than their income level would determine, with less organized cases ranking somewhat lower. [Given that the degree of local organization is

associated with achievements in rural development, the remainder of this extract concentrates on the requirements for successful local organization.]

Basic Structural Conditions for Successful Local Organization in Rural Development

From the various country experiences, we have tried to distill the most essential elements in their patterns of distribution and flow of resources and information and in their structures of authority, as these are part of decision making and implementation. Patterns of resource distribution and flow are not necessarily easy to change, because many people are familiar with and benefit from any existing pattern. But they are subject to government policy, and hence can be altered if governments understand the benefits to be derived therefrom.

1. Distribution of economic assets. The first condition for developing effective local initiative seems to be a relatively equitable distribution of assets, which in the Asian rural context means primarily land. Equity, as used here, is not identical with income equality. We regard as relatively equitable a difference of as much as 5 to 1 in the average income of members of the top 20 percent and the lowest 20 percent of farm households. This is approximately the situation in Israel, Japan, Korea, Taiwan and Yugoslavia, in contrast with ratios of over 10 to 1 in India and even more in Malaysia, the Philippines and Thailand. However, the countries with highest rural welfare and top agricultural performance are in the second rank of cases in terms of income equality, not the first rank. Countries with the most equal distribution of incomes, such as China, Egypt and Sri Lanka, have many things to commend their pattern of rural development, but the most equal distributions do not appear to be necessary for rural development. Nevertheless, all of the countries with more equal income distributions stand out in performance relative to their resource base; and some, such as Japan, Israel and Yugoslavia, had had very rapid rates of overall economic growth without giving up relative income equality (contrary to the theories of some economists). What most distinguishes these cases with greater income equality is that they have had serious and effective land reforms, not just breaking up some big estates but systematically getting land to small and landless farmers within some framework of rural local organization.

Why should relative equity in land ownership be associated with successful local institutions? Because in rural Asia, land ownership is a fairly reliable source and indicator of social and political power. Where this power is skewed in favor of a small minority, that minority will use its power to preempt for its own use the bulk

of the scarce and valuable resources provided by the central government for agricultural development. This includes not only the scarce (subsidized) credit, fertilizer, processing and marketing facilities provided by government, but also the attention of the limited number of extension agents who bear knowledge of improved practices. They will also tend to dominate whatever organizations function in the countryside and convert them to their own purposes. The rural public works programs in Pakistan under Ayub Khan, for example, gave clear evidence of this, with roads, irrigation ditches, drainage channels, etc. built mostly for the use of larger landowners. Smaller farmers will not find it worth their time or effort to participate in local organizations which have little of value to distribute to them, and cannot facilitate their access to goods and services needed to raise their productivity and income. If such organizations become institutionalized, they would be as instruments of the large and middle farmers, while small farmers would have to maintain their traditional dependency on patrons or rely on their own meager resources. Any Asian government which is interested in increasing productivity, increasing per capita incomes, and improved welfare for farm families is likely to find its efforts thwarted by local power structures when these are based on radically inequitable ownership of land.

2. Levels of organization. The more successful systems of local organization in the sphere of cooperatives or farmers associations (as opposed to the sphere of local government) rely on a similar two-tier structure at the lowest level. The primary level of organization tends to be the village or hamlet, the neighborhood, or some other group of 30 to 100 families. Organizations on this scale can be effective for pooling labor, regulating irrigation water at the field level, controlling pests and weeds, harmonizing planting, weeding and harvesting schedules, and performing some common services. Egypt is the only one of the "more organized" cases which is not so well organized at this basic level.

What characterizes the more successful basic units is a shared common identity and common interest. The membership is small enough that all persons can know each other and feel some solidarity with one another. In collective ventures, everyone will know who contributes well and who poorly, with the former rewarded by local esteem and the latter sanctioned by social pressure. There is enough knowledge of individual circumstances to make reasonable judgments about how benefits and costs of local activity should be apportioned. If the most basic unit of local organization is much larger than this, these operational advantages are lost. With sufficient solidarity and organizational skill, somewhat larger units can be effective as with the larger kibbutzim and moshavim in Israel. But the principle of neighborhood organizations as the building blocks for rural development seems essential.

These organizations need in turn to be knit into some larger organization which can provide the benefits of scale — 1,000 families or 5,000 persons as a minimum — to afford the managerial cadres and the physical facilities necessary to operate complex structures handling large sums of money as well as physical inputs, storage and even processing activities. The village of one to three thousand persons is not an appropriate level for either the primary or the more sophisticated activities to be performed by local organizations. It is too large for the former and too small for the latter. A two-tiered approach to local organization can combine the benefits of solidarity and scale, both for mobilizing resources and for organizing and implementing development projects. While there are a number of variations found in the sizes (by population) of organizations at the bottom, and still more variation in the higher levels of national hierarchies, the description above represents a useful principle for guidance — though not an ideal model for all circumstances.

3. Multiple channels. Local organizations (including here local government and political party units along with farmers' associations) need to be differentiated horizontally, i. e., there should be parallel local organizations performing collectively the linkage functions which are so crucial to rural development.

Effective linkage, for a variety of reasons, requires the operation of more than one channel. It is through the skillful use of different channels that local leaders can best enhance their access to resources not available locally on behalf of their communities, and participate in the networks through which information, resources and influence are exchanged. Because any single channel may at any time be blocked or monopolized, may fail to function, or may yield unsatisfactory results, it is important to have at least one additional channel which local leaders use either singly or in combination to meet their needs. Conversely, central governments do well to rely on more than a single channel for reaching down to the village. While normally a single channel will be used for a specific purpose — the irrigation department and irrigation associations for matters involving water supply, the extension service for spread of technical information — the availability and the use of alternative channels can increase the bargaining power of local leaders, their prospects for exerting influence on important decision centers, and their capacity to use the institutional system for local advantage. At the same time, a range of institutional channels can extend the center's range of potential influence and control. In a number of instances local political party organizations have served as a useful alternative to the administrative bureaucratic channels. Too many channels, however, are likely to be counterproductive.

4. Multiple functions. A closely related issue is the choice between single purpose and comprehensive local organizations. Organizational specialization is necessary up to a point, but is likely to fail if taken very far into the local domain of rural development. Reasonably comprehensive structures such as the Farmers' Association in Taiwan or the team-brigade-commune system on the mainland of China have been very successful in Asia. They permit larger scale operations which may be necessary for economic efficiency and provide one center where the farmer can obtain most of the services he needs.

There are serious risks, however, in attempting to encompass too many interests or functions in a single organization. It is then vulnerable to immobilization through factional strife, corruption or leadership inertia. Yet the risks inherent in having a large number of small, specialized single-purpose organizations are more severe. They are likely to be too small in scale for efficient operations and unable to integrate with other specialized activities, imposing an unnecessary and unwelcome burden on farmers, and their work may be duplicative or mutually contradictory. Multifunctional organizations, then, have definite advantages in scale and in capacity to integrate services, but they should not be given a monopoly of functions in any rural area. In none of our cases have all the functions of local governance been committed to a single structure. As a minimum requirement, commercial functions should be separate or at least insulated from partisan or political activities, for farmers must have confidence that cooperatives' distribution of fertilizer will be made fairly or that savings deposits in a credit union will be secure.

5. Decentralization. For many reasons, Asian governments have been biased toward highly bureaucratized and centralized patterns of authority and administration. Rural development, however, must be location-specific, because problems vary with people, soil, climate, settlement patterns, ethnic traditions, and similar factors which inhibit uniform prescriptions except at high levels of policy generalization. Though the pattern varies with each function of government, the more successful cases reflect the willingness of governments to decentralize specific decision-making to structures close to local areas and local clients.

At least three rules of decentralization seem to apply uniformly.

- (1) It is more likely that centralized operations will be required the more complex and powerful is the technology, the more capital-intensive it is, the slower the payoff or return, and the more specialized and scarce the technical and managerial skills required for the job. On the other hand, the more commonplace the technology, the more the people involved, the simpler the management skills required, the more quickly results can be achieved, and the more "feedback" that

is required to guide operations, the stronger is the case for decentralization. (2) In the Asian rural context, decentralization usually is more effective if it is controlled rather than complete. A substantial share of critical resources is usually provided by the center, and since rural people are neither all-wise nor all-virtuous they too may abuse power and misappropriate resources as well as make honest mistakes. Effective decentralization is therefore best constrained by firm policy guidelines and centrally established standards enforced by regular inspections and other forms of audit and control while leaving operations in the hands of locally based personnel. (3) Different rural development tasks are better handled at different levels of decision-making. For example, in Taiwan the Irrigation Associations and Farmers' Associations are organized over different areas. The former vary tremendously in size and scale according to the size of the catchment area involved. Quite pragmatically, Irrigation Associations cross township lines if this is dictated by topography or engineering systems. Farmers' Associations, on the other hand, providing complementary inputs of fertilizer, seeds and credit do not necessarily correspond to Irrigation Association boundaries, as these would often lead to organizational sizes inefficient for managing these inputs.

Strong, effective local institutions do not necessarily weaken the authority of the central government, and indeed as a rule extend it. In some countries the center derives what strength it has mainly by dominating and domineering the local institutions. This is essentially a negative power, good for preventing things from happening. In such a situation, the center will be incapable of accomplishing positive development. Central strength based on anemic rural institutions is an illusion; but it is also unlikely that there can be effective rural institutions in the absence of strong central support. The critical factor is whether the goals of central authorities and local organizations are compatible. Where center and periphery have different objectives, their powers will be pitted against each other. But as long as the central government seeks rural development objectives that are consistent with the needs and aspirations of rural people, strong rural local organization can only enhance the power of the center. This is found in our "more organized" cases, where both center and periphery are strong.

Supporting Behavioral Conditions

Organizational structures represent opportunities for action, but no more. To have effect and contribute to society, they need to be infused with human activity and aspirations. Certain behavioral factors make for more vital local organization to support rural development.

1. Local participation can bring useful, locally-based information and local interests into decision processes, and it can reveal and tap previously unrecognized managerial and leadership talents. The opportunity to participate, even when it is taken up by relatively few local people, enhances the legitimacy of local institutions and also of national government, provides a ready outlet for the expression of grievances, and can generate local cooperative and self-help activities for development. Like all good things participation can be overdone, and local organizations can become overpoliticized or immobilized by factionalism, with rural development objectives displaced by struggles for control. But there is an equally real danger that inspection and controls by higher authorities in support of development goals will be used to throttle participation, as seen from the case study on panchayat raj in the Indian state of Andhra Pradesh (below).

Our case studies reveal a considerable range of modes of local participation. Observers must guard against culture-bound interpretations of participation which judge farmers' meeting for long hours in China or Korea simply as ritualistic or coerced because it is government-sponsored or ordered, while regarding the same extent of participation in Sri Lanka or Israel as "real" because it corresponds more to Western ideas of "democratic" participation. We think it is of great value to farmers that rural people can, by their own decisions, affect the course of government activity; but we also recognize the function of less empowered participation. Rural China today seems alive and even sometimes adrift with participation as often thousands of cadres from many communities meet for days on end; put up in schools and shops, using sleeping bags and open fires to sustain themselves, while issues, directives and evaluations are thrashed out. At the same time, we find Village Councils in Sri Lanka debating and passing resolutions on the Allende regime in Chile or the international energy crisis, passing these up to the center with every expectation that they will be considered seriously. In either case, the morale and enthusiasm of rural people can be heightened by such opportunities, however vicarious in substance or ineffective in outcome, for involvement in efforts beyond their own private sphere. Our analysis of participation in the case studies showed an association, though not a perfect one, between degrees of participation and success in rural development.

2. Leadership. Recruitment of leaders in a manner which Americans would consider "democratic" is not common among our cases, perhaps only in Israel and Sri Lanka. This does not mean, however, that local leadership is necessarily unrepresentative or ineffective for rural development. For example, in China, Korea and Taiwan, quite different selection processes can produce leaders who are close to the local population and can help solve rural problems. In the first case, the Communist Party plays a dominant role in leadership

selection; in the second, a headman is formally selected by the administrative structure, though in practice he is the person agreed from above and below to be the best qualified intermediary; in the third, faction and sometimes even clan politics, surrounded by manipulation of nominations and vote-buying, result nevertheless in reasonably effective local leadership of township government and Farmers' Associations. What the three cases have in common is that leaders are drawn from the local community, have strong personal and family ties there, and feel an obligation to serve what is consensually decided upon as the community interest.

The question often arises whether "traditional" leadership can serve these ends effectively. Given the reservoir of legitimacy and support which much traditional leadership enjoys, working with and through it offers certain advantages provided that the kinds of conditions mentioned above are satisfied. Such leaders, however, are often overburdened by existing duties and usually lack the experience and skills suited to handling problems of new rural development programs. Our conclusion is that they can be effective at the lowest tier of the organization, but much less so at higher levels.

The question also arises concerning the extent to which literacy and formal education should be viewed as requirements for local office. This depends heavily on the attitudes and orientation of the bureaucracy, whether or not it will be supportive of non-literate local leadership and use its educated skills to make this leadership effective; or whether it will undermine and take advantage of such leadership. We found that in China, for example, a concerted effort has been made to buttress illiterate but knowledgeable and dedicated local leaders with educated personnel. In many other countries, however, educated bureaucrats seem for a variety of reasons indisposed to rendering such service. Our study raises the question of how local organizations could be better designed to incorporate non-literates in leadership positions, to draw on their practical knowledge and experience and on the confidence which those with natural leadership skills enjoy from the rest of the rural population.

It is probably true that larger farmers will continue to dominate local rural institutions as long as this group remains basically intact and endowed with its resources. In many communities we found that "middle farmers" or "kulak farmers" —those earning certainly more than a subsistence income, though not major landlords —were the ascendant group. In Egypt, for example, despite the land reform and socialist policies of the central government, the local leadership group is comprised mainly of persons cultivating 20 or more acres. In China, even after the revolution and land reform, much of the local leadership came from "middle peasants" and it has taken a persistent effort to shift authority toward the "poor and lower middle

peasants. " What will count more than reducing larger-farmer numbers in leadership positions will be their orientation, whether they identify with and assist the majority of members or aspire to join the ranks of the top 10 percent and make political decisions accordingly. In the latter case, they are not in effect accountable to the local membership for their actions.

3. Politics and conflict resolution. In any regime of scarcity there will be "politics," as individuals and groups compete for very limited resources, status and authority. In some regimes the competition and the dynamic of politics may be repressed to present an outward appearance of harmony, but underneath the surface the pressures of competition surge.

Where there are local institutions, these institutions will be arenas for the assertion and promotion of competitive claims and for the regulation and resolution of conflict. Outside attempts to enforce rules of unanimity in situations which harbor conflicting interests are likely to ensure the dominance of a minority, to alienate much of the constituency, or simply to fail. The case study on panchayat raj in the Indian state of Andhra Pradesh gave clear evidence of this. There, higher level authorities sought to compel the submergence of local differences — some due admittedly to pernicious factionalism — by favoring panchayats with a high degree of unanimity in making allocations. This led, however, to real distortions of the decision-making process as coercion replaced consensus, and as voluntarism in efforts at community improvement dried up. Local institutions make a major contribution to rural development and welfare by surfacing and settling conflicts, invoking some combination of legal procedures and communally sanctioned norms. By forging some necessary measure of agreement based on overarching values — if only those of curbing strife — politics serves a constructive purpose. This has been the pattern among the more successful local organizational arrangements in our survey.

Not all politics needs to be electoral, though this is the most common and in principle the most effective. We find in the cases of China and Korea that "criticism" and "self-criticism" serve as significant modes of politics. Grievances are expressed, objections are raised, new collective actions are proposed, and by giving vent to such ideas the consequent policies have greater realism and support though not determined by vote, except formalistically after consensus has been shaped. But if criticism and suggestions are purely formalistic, with opposing views unexpressed, no really "political" purpose is served, to be sure.

Too much politics or patronage can of course immobilize or destroy local institutions. Local organizations may perhaps function more

effectively for avoiding the inclusion of inherently conflictual interest groups in the same membership. In many of the countries surveyed, for example, landless laborers represent a large portion of rural households (e. g. , 47 percent in Egypt, 45 percent in Java, Indonesia). These benefit only minimally from government solicitude or services, and their interests on most matters are at sharp variance with those of big landowners who are no longer traditional patrons but commercialized employers. There is not much more community of interest between the landless and the small owner-cultivators. Under these circumstances, it is probably a mistake to attempt to include landowners with landless laborers in the same cooperatives or Farmers' Associations. The latter will need their own organization.

We found no evidence in our studies of organization among the landless, or of government efforts to promote such organization. (Only in China, with collective ownership giving all residents of a locality an interest in productive resources, is the class of laborers with no resources eliminated.) Without organization, these poorest of the poor have no bargaining power and no capacity to claim public services. If they should become effectively organized, conflict levels in the rural areas would certainly increase. We can understand the political reasons why the landless have not been organized (or allowed to organize), but for lack of their organization the political processes in local organization will be less fruitful than they could be. The solution to mitigating potential conflict in the longer run is more, rather than less, "politics."

4. Institutionalization. This term denotes the extent to which people's activities and performance with respect to local organizations are regularized and predictable. It takes time for members and leaders to learn how to work within a complex structure, hence the process of institutionalization will not be culminated quickly. It also takes time for an organization to establish reliable and predictable linkages with other organizations on which its activities depend.

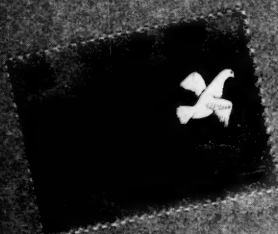
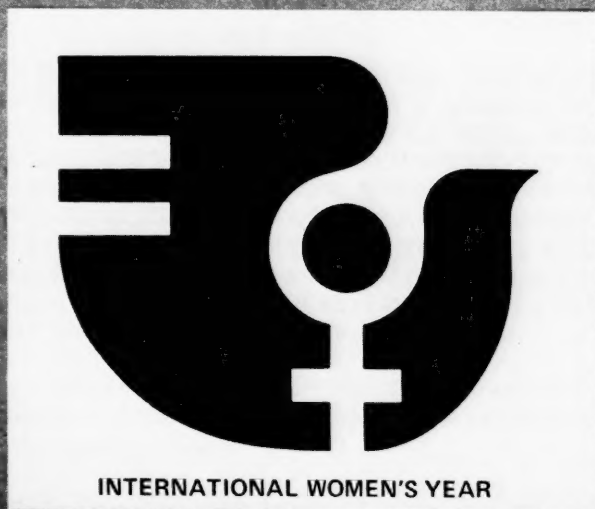
Central elites interested in rural development must be prepared to invest over an extended period of time in building local capabilities, and must avoid the temptation to indulge in frequent and sharp structural changes or to require too much of them too quickly. Institutions are not static; but their innovation in the successful cases proceeds from a base of understanding and commitment on the part of their members, who accord them sufficient legitimacy and allegiance to make the innovation part of a larger purpose which they support. There is conflict, and competition, but it is encompassed within accepted procedures and does not become an impediment to program action. Members and leaders know what is expected of them and act accordingly.

Underlying the process of institutionalization is the growing confidence of members that the local institution and its leaders are indeed serving their interests. This is the key to their legitimacy. Once this confidence is widely breached, or if it never becomes established, the organization may still survive if pumped up from outside; but it cannot become an effective institution in the eyes of its constituents. While farmers do not expect miracles from local organizations, they will not continue to participate unless they see that the organizations command enough resources to make a difference in their lives and allocate these resources for uses that seem productive. Thus, any national government seeking to promote local organization must take steps to insure a steady flow of resources so that it can establish the legitimacy and effectiveness of these organizations in rural eyes. With this support, local organizations can achieve a consistency and predictability of performance, of both their functionaries and members, which will make them useful instruments on behalf of agricultural productivity and rural welfare.

[Extracted from Local Organization for Rural Development: Analysis of Asian Experience, pp. 2-7, 23-33, xiv-xvi, 63-96. Monograph RLG No. 19, Center for International Studies, Cornell University, Ithaca, New York, November 1974. This project, including the case studies mentioned, was supported by the U.S. Agency for International Development.]



WOMEN IN DEVELOPMENT



THE UNITED NATIONS HAS PROCLAIMED 1975 AS INTERNATIONAL WOMEN'S YEAR, AND HELD A WORLD CONFERENCE ON THE SUBJECT IN MEXICO CITY IN JUNE-JULY. THE CENTER OF THE PICTURE SHOWS THE OFFICIAL INSIGNIA FOR INTERNATIONAL WOMEN'S YEAR. AROUND IT ARE STAMPS ISSUED BY VARIOUS COUNTRIES FOR THE OCCASION (STAMPS SUPPLIED COURTESY OF WOODWARD AND LOTHROP'S STAMP DEPARTMENT, WASHINGTON, D.C.)

A Checklist for Action

John von Arnold

[The following questionnaire (with some additions and subtractions by the editors) was sent to the non-governmental organizations which are participating in the International Women's Year Conference in Mexico City.]

Change in any major field of human life always produces "echoes" in other areas. Thus it is important to be aware — as far as prediction is possible — of the side-effects that may arise from advances in the status of women. The following questions are designed to stimulate discussion on a few of the factors involved in changing women's status. For many, if not most of them, there are probably no definitive answers, but these questions should at least provide helpful insights and perhaps some guides to action.

1. Women in many low-income countries — and particularly the least developed — are often extensively employed at hard manual labor.

— Do you feel this represents a kind of "equality," or the reverse? What might be the benefits and what might be the drawbacks:

- for the women directly concerned?
- for their families?
- for the local economy?
- for the national economy?
- for the overall picture of employment and incomes?
- What impact might women's employment in such work have on their prospects for advancement?

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2. Throughout the developing world, significant numbers of women are beginning to enter the industrial labor force.

What effects, good and/or bad, is this likely to have on:

- their role as mothers?
- their role as home-makers?
- their role as community members?

How might it eventually alter basic cultural patterns and ways of life?

What working conditions are particularly essential to women's:

- personal well-being?
- job productivity?

What special provisions does your community make for mothers who must work outside the home?

- day care centers?
- maternity leave?



3. Women are also moving into new positions of authority.

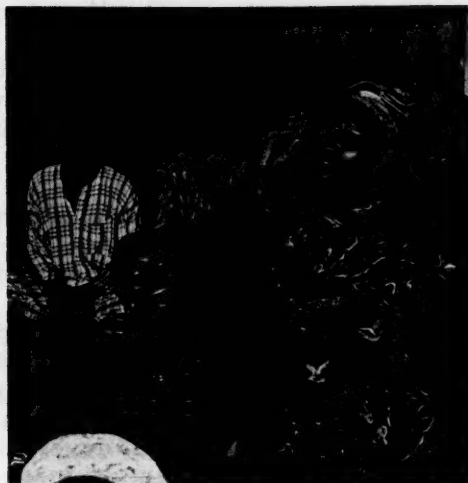
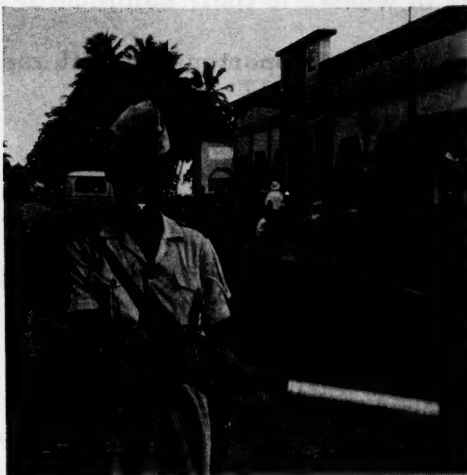
How might this alter:

- their picture of themselves?
- the way men see them?
- the relationship between the sexes?

Do you think that the roles of men and women are totally interchangeable — or that each sex may have, to some extent, equal but differing contributions to make?

- What problems can be caused by rapid changes in sex roles — and how can these problems be forestalled or minimized?

4. In most industrialized nations, women have been active in politics for at least two generations. But their participation has thus far failed to produce many major changes in political systems of politics.



- Why do you think this is the case?
- Might the outcome be different in the low-income countries where women are just starting to take an important hand in politics at many levels? If so, how and why?
- What issues are most likely to arouse the concern of women in these countries?
- Do you believe they will tend to be basically "conservative" or "radical," and why?
- What might motivate them to take greater interest in politics and to take on decision making roles?



5. Many factors can affect the status of women in their communities:
- Should women have identical educational opportunities with men?
 - How many years should women attend school?
 - Should women receive the same wages as men when they do equivalent work?
 - Should their legal status be different from that of men? If so, in what ways would differences be justified?
6. At times, women's problems are unique:
- Should there be special projects on activities dealing with women's problems? If so, who should plan such projects?
 - What effects might the introduction of simple labor-saving devices for household and other traditional work have in the life of women in developing countries?
 - How might this, in turn, be reflected by changes in the life of local communities?
 - What other kinds of programs and projects would we be involved in helping women as homemakers and family members:
 - nutrition?
 - family planning?
 - child care?



[Adapted from Ways and Means, Part Nine, a series of informational pamphlets for non-governmental organizations, published in conjunction with the quarterly service bulletin Commitment by the United Nations Development Program, New York, 1975.]

Note: For a comprehensive survey of women's roles in the development process, see Development Digest, April 1971, pp. 97-122.

Rural Women in Kenya and Tanzania

The Research Division of SIDA

[In traditional East Africa women's roles have been sharply differentiated from men's, giving the former security within their defined sphere. Progress in agricultural methods has tended to erode this security; some proposals are made for adapting women's position to the demands of modernization.]

The Traditional Rural Society

Traditional subsistence agriculture in East Africa relies on a slash and burn technique which requires long periods of up to 15 years when the land lies fallow for the soil to regenerate after a few years of cultivation. Only annual crops are grown in this way: millet, sweet potatoes, maize, manioc, peanuts and beans. These crops are inter-planted (rather than monocropped); use of fertilizer is rare; and simple tools—hoes, digging sticks—are used. In addition, perennial crops, largely fruit and oil palm trees, are grown; and some kinds of livestock may be raised. (This paper does not deal with tribes whose chief activity is cattle raising.)

Women's duties. Work is apportioned according to sex. All agricultural tasks affecting annual crops fall on the women with the exception of clearing and burning. On certain high, dry plateaus where the soil is difficult to work, men take part in some of the heavier cultivation jobs. Women hoe the loose soil, plant, thin, weed and harvest. They are also responsible for the storage of the produce, for decisions on matters of consumption

SIDA, the Swedish International Development Authority, is the foreign assistance agency of the Government of Sweden.

and distribution, and for the sale of any possible surplus: this gives them an income at their own disposal. They are responsible for the day-to-day household budget, and for the household's smaller domestic animals: goats, chickens and pigs. They make certain types of household articles, mostly pleated goods. They also fix food for themselves, their husbands and their children. They procure all that is necessary for food preparation — wood, containers and water. To collect water may take half a day or more during the dry season.

Men's duties. Men clear and burn, cultivate perennial plants, procure meat, take care of the larger domestic animals (if agriculture is supplemented by cattle-raising), and build and maintain the houses of their respective wives. The trees producing perennial crops are regarded as a form of interest-yielding capital. Capital can only be owned and administered by those considered to be legally competent, that is to say men. Therefore it is the men that plant, harvest and take responsibility for these plants. Both these plants and their proceeds are the personal property of men just as the annual crops and their proceeds belong to the women. The processing of the products from the perennial plants is therefore among the duties of the men, and this includes the making of clothes which were made earlier by the preparation of wood fibers. Even in a changing rural community, the man continues to sew, even by machine, and to sell the cloth on the market.

Other occupations of men in the traditional community can be described as "foreign and domestic politics". Taking care of relations between clans and tribes has always been the exclusive concern of men: contacts with neighbors, settling arguments, and other legal matters within the traditional common law. Most of the men's time has been devoted to preserving the organization of society by remembering and discussing the rules and knowledge of earlier generations and passing these on to others.

Women's decision-making rights. Women are regarded as the owners of all crops they cultivate and the products they manufacture. They are not controlled by anyone as long as they tend to their work and fulfill their obligations for support of the family and relatives. The principle is that the one who owns a certain crop also has the responsibility for its cultivation and the various tasks that arise in connection with it. If a husband or anyone else were to interfere in this matter a woman could, in principle, request that the affair be adjudicated and could request legal compensation. Their position as the main providers of food gives the women economic independence and economic value. The character of women's social relationships is determined to a great extent by their role in the productive system. Women's social standing is also defined by their position within the clan system.

The clan. Land cannot be owned by individuals. It belongs to a family collective — a lineage, i. e. a clan or that portion of a clan whose members are united by their descent from a specific ancestor known by name. In the slash and burn method of cultivation, the long fallow periods presuppose access to such large areas of land that an individual household could not defend its territory. At the head of the clan is a clan chief who allots tilling rights to the members of the clan according to their needs. Each married male member of the clan is given temporary tilling rights for his household to a particular piece of land. After a fallow period he cannot demand to regain the same specific piece of land (except that he owns trees he has planted, while they live). The land that a man is given is worked by his wife.

Collective ownership of the land is the basis for comprehensive social, economic, religious, legal, political and moral obligations among the clan members. Production in the clan is controlled by those leaders who have been authorized by the ancestors to administer the inherited knowledge of the organization of society. Too large a surplus for individuals is prevented in deference to the demand for equality within the group. Economically successful women have always run the risk of being accused of witchcraft. They are charged with magically extracting the vitality out of other families, and thus ultimately out of their husbands' clans as a whole, in order to further themselves at the cost of the others.

The clan is regarded as a whole, and its members in their relations with members from other clans act not as private individuals but as representatives of their clan. Ultimate responsibility for the actions of every clan member in relation to outsiders rests with the clan chief. He may delegate this responsibility to lower levels within the clan: the head of a family may assume responsibility for the actions of his extended family. Any economic penalty that one person might incur through arrangements with a member of another clan ultimately falls upon the group as a whole.

The standing of women in the clan system. Women, like the younger unmarried members of the clan, are regarded as legally incompetent. They cannot plead their own cases and are neither economically nor legally responsible in a dispute or claims for damages, nor do they take part in ritual and religious matters. They do not have the same access as men have to the fund of knowledge that is needed to control society; they therefore have no political right to participate in decision-making.

A woman remains a member of the clan she was born into even after marriage. But since she moves to the clan territory of her husband upon marriage, this membership becomes relatively passive. Female members of a clan are spread in different places and have no

opportunity to cooperate nor take part in all of their own clan's collective activities. But they do gather on certain occasions as in the case of death and sickness. In addition, after her marriage, a woman maintains the right and obligation to visit her home-village regularly to maintain contacts with her clansmen, even though her social activities within her husband's clan are more comprehensive.

Marriage is a kind of contract between a woman's own and her husband's clan. The contract involves certain duties of an economic, social and sexual nature which are mutually imposed on the couple. The contract does not entail community of ownership. According to the common law of marriage a woman is guaranteed economic independence vis-a-vis her husband, protection against maltreatment, and strictly defined rights on matters of social and sexual intercourse. Common law also determines her rights and obligations in relation to any co-wives. If her rights are not respected her clan may claim damages or divorce.

Men and women live in different worlds. Sex and age determine the day-to-day way of life and production chores. Married women in their active years associate with one another, while adult men keep to themselves. The men of the household, or that part of a clan that makes up a village, eat together. After having served their husbands, women eat together and with the children. In a polygamous marriage the wives take turns preparing and serving the husband's food according to mutual agreement. Sometimes a woman eats alone with her children, sometimes with other female relations; sometimes women from several households take their meals together.

The wife of a polygamous marriage is guaranteed, in principle, just as great an economic and social independence as the wife of a monogamous marriage. Each of the wives of a polygamous marriage has the right to her own hut, her own hearth and her own field. They are all guaranteed the same rights to sexual intercourse with the husband, and when meat and clothes are passed out by the husband none of the wives may be favored. In some ethnic groups, however, the first married wife has a special standing, and must give her assent before the husband marries another woman. Generally speaking, women enjoy their own position of power because of their economic independence in day-to-day production, and because the firm establishment of set roles is guaranteed by the clan system.

Social Consequences of Economic Change

When a society which has lived on subsistence agriculture begins large scale cultivation of cash crops, two important changes take place influencing the situation of women: 1) land rights shift from

collective tilling rights to individual ownership rights; and 2) the division of labor between the two sexes is altered.

The land becomes the property of the husband. The transition from collective to individual ownership of the land is accelerated by three factors: 1) The most important and earliest cash crops that were introduced were perennial: coffee, tea, sisal, cocoa, oil palms, etc. In order for the cultivation of these to be profitable they had to be planted very close to each other (monocropping). This precluded the growing of annual crops between them. In practice this also meant that the cultivator acquired private rights to the land itself. He remained tied to it during the entire time that the plants yielded profits, i. e. usually an entire generation. 2) Where annual cash crops have been introduced, population density has also been or has become relatively high. Heavy population pressure does not allow the methods of traditional crop rotation to be applied, since these presuppose that large areas of land lie fallow for long periods of time. 3) Land reforms in Uganda (1900) and Kenya (1954) have accelerated the evolution towards private ownership of the land. The social consequences of the transition from collective to individual ownership of land are pervasive. In the altered agricultural community, every adult male is regarded as an independent legal entity. Men are no longer responsible for their actions to the head of the clan nor to the clan as a whole. Their only responsibility is to themselves. For example, this means that a man may more arbitrarily apply the rules for co-habitation with members of other clans. The condemnation he might possibly bring upon himself no longer brings his position into question. He has his own land and therefore his own personal security to safeguard.

Men have lost the security of clan membership but have been compensated by the security of becoming landowners. The women have not obtained any comparable compensation, nor have marriage rights been adapted to the new situation. Individual ownership continues to prevail in the marriage: a man's individual rights now encompass land ownership, while the woman's ownership rights have not been extended.

The division of labor between the sexes is changing. When cash crops are introduced in the form of new plants which are not also cultivated for subsistence, they are generally regarded in tropical Africa as "the men's crops". This is most obvious when the new crops to be expanded are perennial plants, for which the man have traditionally had the chief responsibility. Only the work comparable to that normally done by women in cultivating the annual subsistence crops are entrusted to women, i. e. routine and time-consuming work such as weeding, picking tea leaves and coffee berries, etc.

New annual crops which are not used for family food but are sold for cash are also regarded as "men's crops". Moreover, any work

that involves a new technique is carried out by men, which includes new tools, new hand movements, and new information. In addition the men perform work that demands a good deal of strength, as they did earlier; plowing for example, is increasing. These shifts in the division of labor tend to demote women from their position as independent producers to that of workers without any share in the profit of production.

Customary law has not adapted to these new conditions. It still seems to be the general rule that each of the partners has individual rights to those crops he or she cultivates, and this applies as well as to the profits. In practice, a man and a woman may sometimes discuss the use of the income from "the man's" products; but it happens just as often that such a discussion does not take place.

The security of women's rights also diminishes due to the breakdown of the clan system. Although her father or the nearest head of the family may continue to act as a woman's guardian he only has his personal influence to impose on his son-in-law in the event of marital conflicts. Marriage takes on the character of an individual contract between a man and the guardian of a woman. The scope for arbitrariness increases in marital matters, and this arbitrariness may influence the relative economic strength of the partners.

National Development Plans

In both Kenya and Tanzania plans for the conversion of agriculture emphasize investments for the development of commercial agriculture. When the target groups are described in development planning, women (who own no land) are omitted. Instruction in new technical methods takes place in such form (among others at boarding schools) that in practice it is only men that can participate. Lending institutions in the agricultural sector do not consider women as loan recipients. The lending system is based on land which is pledged as collateral, although in certain cases a loan may be secured by the coming years' yield from the perennial cash crops. This means that only men receive loans. As long as no special measures to the particular advantage of women are put into effect they will continue to be subordinated workers in the new agricultural community.

Cooperatives. There is one important difference between the development plans of Tanzania and Kenya. In Kenya development is almost exclusively directed towards increasing the individual farmers' production on private plots of land. In Tanzania planning is based on communal ownership of the land. In the latter, agriculture within collective villages — the so called ujamaa-villages — in which women have individual membership rights is given priority.

Plans for the marketing of new cash crops rely on the agricultural cooperative. The cooperative movement is mostly based on the farmer with either formal private ownership of the land (Kenya), or private ownership in practice (Tanzania). Thus the opportunities that women have to actively participate in development in either country are partially a question of what the cooperatives understand her role to be. There is no explicit sex discrimination within the producers' cooperatives in membership and cooperative education. Commendable progress has been made, particularly in Kenya, towards giving women cooperative education; several rounds of special courses for women have been arranged in recent years. There are many female employees in the cooperative movement such as secretaries within the lower level organizations. In principle, an educated woman has just as great an opportunity to acquire employment within the cooperative as any educated man.

The cooperative movement, however, has in practice failed to involve women because the economic role of women has not been clearly identified. Designations such as "agricultural producer" or "cultivator" are understood in practice to be "landowner". This means that it is only men who apply for membership in cooperative organizations, except in cases where a male member has died and the widow is regarded as the administrator of his land. Thus the only uneducated women who are members of the cooperative organizations are widows. Even if land ownership were not an issue, when producers' or marketing cooperatives are mostly based on new types of crops and new agricultural techniques, it will only be men who are defined as the "producers".

Women's organizations. Both the Kenyan and the Tanzanian women's movements aim at involving women in economic development. The Tanzanian organization has a special economic committee with its own training programs which aim at improving the economic standing of members by instruction in, for example, handicrafts, small industry, poultry-farming, gardening, cooperative agriculture and the instruction of illiterates. The main stress of the Kenya movement is on combating illiteracy among women and on instructing women, particularly those in rural areas, in home economics, nutrition, agriculture, handicrafts and child care. Both organizations avoid stressing the relationship to men.

Consequences for Status

In the traditional African community there are separate standards of status for women and for men. Women are compared with one another on the basis of female characteristics. In the African community these consist of industriousness, humility, fertility, etc. If a woman is rated high on the female scale she will be respected in the community, without having reached beyond the sphere of female rights

and obligations. Men attain their community standing according to the extent of their dignified demeanor, eloquence, knowledge of common law, etc. In the community there is no inter-comparison between the status of men and women: they are incomparable entities.

When the traditional community is altered as a consequence of the conversion of agriculture the following happens: the basis of men's contention for social status is pulled out from under them as the clan system dissolves, but a new field is opened to them —the economic. As men take over more of the economy and a new male ranking scale is created, women lose their most important source of status. Their security is no longer protected by the old separation in the spheres of the two sexes, and they may be forced to compete with men on the terms of the men's economic ranking scale.

Proposals

In order for instruction in new agricultural techniques to reach women a series of measures are necessary. For example, instruction should take place locally and during hours when women can get away from their agricultural and domestic duties. It must also be organized in such a way that the ability to read and write is not a prerequisite. It should expressly direct itself to women, possibly in the form of specific days of instruction for them. But it most probably should be brought about jointly by both men and women, with specific recognition of what women have to gain economically and socially by an increase in joint responsibility. The risk of a separate mobilization of women is that it creates a conflict in their relationships to men.

In order to bring about long range improvement the general educational level of women must also be raised. Many more boys than girls are still sent to school, partly because a fee is charged for school attendance. Different types of scholarships might help equalize the lopsided recruiting in schools. To teach adult women to read and write is also an important job. In practice women are much more respected by men if they have some education than if they cannot read or write, regardless of age. One condition for official laws being applied on the village level is that people know about them. As long as women are illiterate and ignorant of their lawful rights they have no opportunity of vindicating either the laws or themselves.

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Employment and the Status of Women in Venezuela

Sylvana Zaia Maccan and Michael Bamberger

[Increasing female participation in the work force in Venezuela is in part attributable to rising educational levels of women: the more educated women not only have higher participation rates but tend to approve of women working more than do the less educated. For large numbers of the poorer women, however, work is seen as an economic necessity, not always welcomed, and their job possibilities are circumscribed.]

There is a considerable body of literature suggesting that employment and education are two of the principal determinants of the status of women in a given society. Regarding employment, the key factor is not simply the number of women who work but the control they can exercise over the conditions of employment and their promotion opportunities and wage levels relative to those of men. This paper presents a summary of evidence on this subject for Venezuela. Most of the statistics are taken from the National Population Censuses of 1941, 1950, 1961 and 1971 (the latter are only partially available), and from the national household sample surveys of which 13 have been published for the period 1967-71.

Changes in Female Labor Force Participation

Between 1941 and 1971 the labor force participation rate in Venezuela for females 10 years and over

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increased from 16.1% to slightly over 20%. Throughout the period the most rapid increases have been for women in the 20-44 age range, while the rates for women under 15 and over 55 declined. The increases in overall female participation rates have been accompanied by a decline in male participation, with the result that the female share of the total labor force has increased from 17.8% in 1950 to 21.5% in 1971.

Significant changes have also occurred in the principal occupational categories. Between 1941 and 1970 the proportion of female employment represented by agriculture declined from 14.7% to 4.4%, and the proportion working in the manufacturing sector dropped from 35.2% to 16.6%. The principal increases occurred in commerce (12.8% to 18.1%), and services (45.6% to 57.4%). Most of these changes are consistent in their direction and rates of increase or decline with the overall changes in the occupational structure of the labor force, except that the decline in manufacturing employment occurred during a period in which total employment in this sector increased by 320%. The reasons for this decline are discussed below.

A woman's educational level is a very strong determinant of her labor force participation. In the period 1969-71 the average participation rate of illiterate women was 16%, the rate for women with secondary education was 26.7%, and the rate for women with university education was 40.2%.

In 1961 it was found that 51.6% of divorced women were economically active, while the rates were 21.7% for single women, 18.8% for widows, 13.3% for married women and only 8.7% for women living in common law unions. Although part of the differences can be explained by age (widows for example are on average much older), much of the difference is due to differences in the economic necessity of the different groups and to different cultural values.

The concept of a demand for female labor. Traditionally the demand for labor is analyzed in terms of skill or educational levels, with the implicit assumption that male and female labor are freely interchangeable. Recent studies have shown, however, that social customs, institutional pressures and even labor legislation have meant that in practice a very large number of jobs are reserved exclusively or largely for either males or females. This "sex-labeling" of occupations can be clearly observed in Venezuela. An analysis of the censuses of 1941, 1950 and 1961 (the appropriate 1971 figures are not yet available) shows that in every case at least 70% of women worked in occupations where women were overrepresented. In none of the three censuses did women form more than 18.7% of the labor force, but in each census at least 60% of women worked in occupations where women represented over 40% of the labor force, and at least 36% in occupations where women represented over 76% of the labor

force. There has been a slight tendency for this concentration to decrease over time: if "female occupations" are defined as those in which women formed 30% or more of the work force, the annual rate of increase of female workers in such jobs was 3.85% from 1950 to 1971 compared to 4.2% for all female workers.

Whether the supply of women seeking work grew faster than the demand for female labor cannot be inferred from changes in the numbers employed. It depends on the unknown factor of how many of the growing potential supply of females actually wanted employment. In the United States the effect of a rapid growth of such a demand has been to increase the proportion of married women and women with young children who are working. Unfortunately Venezuelan census data do not supply this type of detail. Breakdowns between civil status and employment were only included in 1961 and 1971, and none of the censuses publish breakdowns between numbers of children and employment. Between 1960 and 1970 the labor force participation rate for married women increased from 13.3% to 16.84%, and married women's share of the female labor force increased from 21.85% to 24.16%.

The Effects of Higher Levels of Female Education on Employment and Wages

Between 1950 and 1970 there was dramatic decrease in female illiteracy from 55.1 to 21.2 percent, while rates of female school attendance more than doubled and the proportion of women with at least one year of secondary education rose from 1.8 to 14.2 percent. Over this period the gap between male and female educational levels was very substantially reduced.

Analysis of recent manpower statistics in Venezuela shows a very clear relationship between educational attainment and labor force participation. A woman with university education is almost 3 times as likely to be employed as a woman with less than 4 years of primary education. At least three factors explain this relationship. Firstly there is a strong relation between educational level and expected earnings. The average salary of a woman with university education was 6.91 times higher than the average for a woman with no education. It is interesting to note that the corresponding ratio for males is only 3.76. Secondly, most studies have shown a strong relationship between fertility and employment. The fact that the more educated women have less children makes it easier for them to work outside the home. Thirdly, there is the relationship between education and motivation to work. The results of interviews conducted by CELADE in Caracas in 1963-64 indicated that 45% of the women with 12 or more years of education approved of women working outside the home. The proportion was only 36.5% for women with 7-11 years of education and

fell to 22.1% for women with only 1-3 years of education. Thus, it is reasonable to conclude that the improving levels of educational attainment have been one of the principal causes of the increasing female labor force participation in Venezuela.

The Effects of Employment on the Status of Women

To understand the implications of the results presented above, certain characteristics of the social and economic structure of Venezuela must be kept in mind. Perhaps the most important point to stress is that the Venezuelan economy continues to have a high level of labor under-utilization. The magnitude of this under-utilization is not adequately reflected in published statistics as they only examine open unemployment. The Centro de Estudios Sociales (1972) has estimated that as much as 25% of the low-income labor force in Venezuelan cities is under-utilized, either through open unemployment or through the various forms of underemployment. It is also speculated that one of the reasons why the female participation rate is not higher is because of lack of job opportunities. Studies in Colombia, Peru and Chile have shown that there are very large numbers of women who would like to work but who are not actively seeking a job as they do not perceive any possibility of finding one. It appears likely that there is in Venezuela a very large number of women whose work potential is being under-utilized, and who would willingly take up employment if the possibility arose. There seems to be little or no pressure to increase female wages to attract more women to work.

A second general point to stress is that the effects of educational changes and particularly employment changes are completely different for relatively skilled middle-class women than they are for unskilled women from low-income families. Whereas both educational and employment changes have almost certainly improved the status of middle-class women, it is much less clear how these changes have affected the poorer groups. Finally, most of the women in Venezuela are seeking work in a social context where the role of women is still governed by very traditional attitudes, and where many of the major decisions on whether a woman should work — decisions both in the place of employment and in the household — are made by men.

Although the proportion of women who work has increased steadily over the past 20 years (with the exception of very young and very old workers), there has been no reduction in the difference between average male and average female earnings. It was found that in both 1961 and 1971, the average male was earning about 60% more than the average female. This is true even though males only worked on average about 2 hours more a week than females. A major reason for this continuing difference in wage levels is probably a large pool

of surplus female labor. When large numbers of women would be glad to work at present wage levels if a job was available, the female labor force can increase without the payment of higher wages.

Increasing female employment does not seem to have increased the range of occupations open to women. Female workers are as highly concentrated in a limited range of occupations as they were 30 years ago. (Venezuelan labor statistics only present breakdowns for about 50 categories, so that if greater detail were available one might find some changes.) Analysis of female employment patterns shows that the occupations where female employment is increasing most rapidly are those where female salaries have increased least, both in absolute terms and relative to male salaries. Spearman's Rank Correlation gives a value of $-.786$ for the relation between rate of increase of employment and rate of increase of salaries for female workers. This finding is consistent with the hypothesis of surplus labor in the socially determined "female occupations."

Given the existence of surplus female labor, women are much less unionized than men and it is more difficult for them to fight for improvements in absolute and relative wages. It would seem that in those industries where female wages have risen, employers have been less willing to hire women so that women who wished to work have been forced into those occupations where wages are relatively lower —predominantly in services and trade. Many of the salary increases for female workers have not been produced by supply and demand or by unions but by outside pressures such as labor legislation. These forced wage increases, without the strong demand for female labor, may often have the opposite effect to that which was intended and in fact reduce the number of women working in the affected industries. This phenomenon seems to be occurring in Venezuela at the present time. New labor legislation has substantially increased both the absolute and relative cost of employing female labor in many sectors of the economy. The result, at least in the short run, seems to have been a reduction in the demand for female labor in those industries. As noted earlier, the proportion of women working in manufacturing has decreased sharply over the last 30 years.

Class Position and the Meaning of Employment

Entry into the labor force has very different effects on the middle-class woman and on the unskilled working-class woman. About 40% of university educated women are economically active. Their influence is particularly strong in the public sector of the economy. Perhaps for these women, employment is an important factor in self-realization and in improving their overall status in society. A key factor in permitting this high participation rate is the relatively

abundant supply of domestic labor which enables the woman to maintain her dual role as mother and worker. It is perhaps ironic that labor legislation designed to improve the economic status of low-income women might, through reducing the supply of cheap domestic labor, reduce labor force participation of middle-class women.

Experience from the employment programs and from available studies suggests that among low-income groups the majority of women seek work through sheer economic necessity rather than through positive desires to work. It seems to be the case that in low-income families relatively few women work when there is a man present.

Women in common-law unions, the lowest income group, have a labor force participation rate about half of that for married women. Observation suggests that the common-law wife is concerned that if she went out to work she might lose her man. As she is more concerned with economic survival than with economic mobility, she prefers to accept the low standard of living which the man's income provides, rather than trying to increase earnings and perhaps placing the union in jeopardy. If the common-law union does break up then the woman is very likely to be forced to work.

In Venezuela there is virtually no type of social security system to protect the unemployed (except in the form of a fixed sum which workers are paid when they leave or are fired from a company), nor is there any financial assistance available to a mother who has been left by her companion. It is almost impossible for her to oblige the father of her children to pay for their maintenance. It was estimated by the authors that in the Caracas barrios as much as 25% of the households have a woman who is the effective head of household, at least during certain periods of time. For this large group of unmarried mothers work is very much of an economic necessity, and not a source of satisfaction or self-realization.

The results of the experimental employment programs illustrate in concrete terms the ways in which the work situation can humiliate the low-income mother. Many employers prefer not to hire women who have children. A mother will often not tell the employer she has a child for fear of not getting a job, and she cannot enjoy the benefit of the child care centers that the law requires employers to provide. When the child gets sick and the mother has to take time off from work, she will often pretend that she herself is sick, or will invent some other excuse. This will get her the reputation of either being very irresponsible or of being unhealthy.

The situation of the working mother is further aggravated by the fact that most companies ignore the labor legislation which requires them to provide child-care facilities if they employ more than a

certain number of women. The most common reason the companies give is that none of the workers have ever asked them to provide these facilities. Labor surplus also means that employers can be very selective about whom they hire. Quite a few employers, for example, reject women who are dark skinned. Employers are also quick to fire women whom they do not like, as they know there are usually other people waiting for the job.

The cumulative effect of these factors is that the poorest female workers must enter the labor market with very limited institutional protection from unions and labor legislation. They must compete with large numbers of other women for the available "female" jobs. If it were possible to develop social security systems for unmarried mothers so they would not have to work, this could be a major contribution to their status. These women should be helped to work if they wish to, but we must not fall into the assumption that higher levels of labor force participation automatically mean that the status of women is improving.

[Extracted from an unpublished paper presented to the Eighth World Congress of the Committee on Family Research, International Sociological Association, August 1974.]

Women and the Chinese Revolution

Katie Curtin

[The Chinese revolution has brought about great changes in the status of women in comparison with their previous subordinate position. Gains are found in their rights to free choice in marriage and in their participation in the work force and educational levels. But each of these gains is limited in certain respects, and all have been subject to shifting policies reflecting changes in the regime's priorities.]

Women's Position in the Old Society

It has been noted that Confucius, whose epigrams codified the ethics of imperial China, had not one favorable word for women. In traditional China it was said that women passed through three ages: In the first she was under the authority of the father, then under her husband, and finally, if he died, she was subject to her son. Female infanticide was practiced, especially among the lower classes: not only was a female child an expense to raise, but later she needed a dowry to marry, and her most productive years were devoted to the service not of her own but of her husband's family. The binding of women's feet, introduced throughout China in the tenth century, was seen as a mark of gentility and was most prevalent among the upper classes. Marriages were not based on love or mutual consent but were arranged by the parents through match-makers. A woman's role in life was to bear a male child in order to perpetuate the family name. While the man could take additional wives, a woman could only have one husband, and widows were not allowed to remarry.

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Some (male) writers have claimed that rather than being chattels, Chinese women really held the power. Dr. Hu Shih, for example, wrote that women had always been the greatest despots of the family and that no other country could compete with China for its number of henpecked husbands. While Chinese women in their capacities as mothers and mothers-in-law did hold some power, this was only over the younger women of the family; all the women still remained subordinate to the men. Occasionally a very strong woman would gain considerable control in her family, including over male members. But the real levers of power were held by the men in the patriarchal clan institutions of the village and in the government bureaucracy. Women lacked legal and property rights and their only political influence lay in their ability to manipulate kinsmen.

This pattern continued to prevail for the great majority of the people up to the revolution in 1949. In the large cities changes had begun to occur with some women working in industry, some receiving education, and (after 1931) new legal rights vis-a-vis marriage and divorce; but in practice only a small minority of women were affected by these changes.

CCP Policy toward Women after the Revolution

The Chinese Communist Party's civil war with Chiang Kai-Shek ended in October 1949 with a CCP victory and the proclamation of the People's Republic of China in Peking. Mao and his associates stood at the head of a vast mass movement that they sought to channel into the building of a "New Democratic" China. This deferred indefinitely socialist measures such as nationalization of industry. But profound reforms of the old system were begun immediately. The China Democratic Women's Federation was set up at this time with the dual responsibility of implementing government policy toward women and of bringing to the government's attention complaints by women when the approved reforms were not being implemented. In 1949 the federation had 20 million members and was to grow to 76 million by 1956.

Women were given the right to vote. Prostitution and female infanticide were prohibited, and to a large extent abolished in practice. The new marriage laws gave women their rights to property, inheritance, and free choice in marriage, divorce, and custody of children. Concubinage was forbidden, although no action was taken on this unless one of the women involved complained. The Chinese government reported that with the beginning of land reform, 60 million women acquired land equality with men in central and eastern China alone.

The CCP sought to consolidate its new power by energetically seeking to uproot the potentially hostile structures of the village clan

elders and the patriarchal family system. It encouraged women to attack the traditional family system and to organize against their oppression, under the leadership of the CCP. From 1950 to 1953 the CCP launched a mass campaign to enforce the new marriage laws. Propaganda exhibitions, leaflets, pictorial handbooks understandable to the mass of illiterate people, and plays conveyed the message to the countryside. Stories in the press dwelt continuously on the theme of progressive children versus their backward parents. Some 3.5 million CCP cadres were given training courses in the new laws. In Honan province, of the 240 theater groups set up in 1952, 25 percent of the plays performed centered around the marriage laws and how to deal with family conflicts.

Women met deep resistance to their fight for equality from the peasant males. Old traditions clung tenaciously, and the laws were often opposed or subverted by husbands, including party cadres. Males often resented the undermining of their authority in both the family and the village community. Divorce might run against their economic interests, for through it they lost a wife who provided domestic labor and her property as well. Some older women felt threatened by the freedom of choice in marriage, as it undermined their control over their daughters and daughter-in-law, the one small share of power they were familiar with in the old society. There were many cases where women activists who were sent to villages to introduce the new laws were murdered by peasant men. Some women were killed by their fathers for defying traditional customs. A major obstacle was the refusal of lower-level male party cadres, who were now the main political power at the local level, to implement the marriage laws.

The first big campaigns, pushed forward by women activists, made significant inroads in eliminating the power of the old patriarchal family and replacing it with the norms of a modern bourgeois-democratic society. The tempestuous change of the first years after liberation was not maintained, however. In 1953, the CCP hierarchy decided to scrap the "New Democracy" program and move to adopt socialist measures. It was in this year that the First Five-Year Plan was put into effect, marking the break with capitalism. But once the capitalist threat was past, the CCP ordered a retrenchment in the women's movement. Having consolidated its power and broken the hold of the precapitalist village structures, the CCP sought stability and saw a militant women's movement as disruptive of this goal.

The new line adopted in 1953 was that women's liberation was completed and no longer required independent struggles by women. This position was summed up by an article entitled "How Should Family Women Better Serve Socialist Reconstruction," in the October 1955 issue of the Peking magazine Hsin Chung-Kuo fu-nu (New China's Women): "The new Constitution has guaranteed women's equality with

men in political, economic, cultural, social, and family interest, and the state has come to protect women's rights in marriage, in the family, in motherhood, and in the welfare of children. Henceforth, women no longer need to initiate a militant struggle for such things." Women's political role was downplayed and an increasing emphasis was placed on mobilizing women for economic production, combined with appeals to women to perform their family duties well. The struggle for production quotas became primary. This led to a certain reassertion of traditional patterns in the rural areas. With the Great Leap Forward in the fall of 1958 there was some reversal of the attitude towards divorce and the family, but this trend did not continue after the failure of the Great Leap policies.

When Jan Myrdal, a Swedish journalist sympathetic to Maoism, questioned some villagers in 1962 on the question of divorce he was told: "But that [divorce] is a thing of the past. If there are children, people think it is immoral and wicked to leave them. Even if the marriage is childless, people still consider divorce immoral, because now people can choose whom they will marry, they will have chosen each other and should put up with the consequences. One can always adopt a child. If in spite of all this, they still want a divorce the various organizations, the party, the League of Youth, the women's group, try to instruct them and explain what is the decent thing to do and the one consistent with socialist morality. If they persist, the matter is taken up by the mediation committee of the people's commune which goes into it thoroughly with them and explains to them why they ought not divorce but live together and agree. If after all this they refuse to give in and still want a divorce, they are of course entitled to go to the court in Yen-an and start proceedings for divorce; but that has not happened in Liu Ling, nor have any divorces been heard of in many years for it is a long time now since women were granted equality and marriages have been entered into equally."

This overwhelming social pressure against divorce hits women more severely than men, because many women are caught in oppressive relationships with husbands who are still steeped in the patriarchal tradition. The Cultural Revolution, with its upheaval within the bureaucracy, brought some renewed criticism of the continuing patriarchal structure of the family. But its only lasting impact appears to have been in an improvement in women's pay scales in relation to men. The organized opposition to divorce remains.

Women and Education

Equal education, while not necessarily guaranteeing equality in other spheres, certainly is a very important prerequisite for Chinese women's advancement in the political and economic life of the country. The CCP was faced with a massive problem of illiteracy,

particularly among women. A sample survey in the nine counties of Szechuan province in South China in 1942 and 1943 showed 48 percent of the men to be literate, but only 19 percent of the women. After 1949, mass literacy campaigns were launched to combat this problem. In 1950 in the Shanghai textile factories, where a majority of the employees are women, 170 literacy groups were organized with a total membership of 9,000. In the cities of Darien and Port Arthur, out of 9,115 illiterate women workers in 1951, some 94.5 percent participated in literacy programs. In 1958 more than 16 million women passed their literacy tests. I have found no recent figures on the extent of present illiteracy. Undoubtedly this still remains a problem, but it is clear that a significant effort has been made with impressive results.

The proportion of women in schools increased from 25 percent in 1949 to 30 percent in 1958 at the primary level, from 20 to 31 percent at the technical middle-school level, and from 18 percent to 23 percent in the institutions of higher learning. Over nine years, however, increases which range from 5 percent to 11 percent are not dramatic. Schooling as a whole, particularly college level, was drastically curtailed during both the Great Leap Forward and again during the Cultural Revolution, the two high tides of distinctly Maoist policy. The results, while not aimed at women especially, were to greatly reduce educational opportunities for all Chinese youth. Ross Terrill, the Australian China scholar and Labor Party spokesman, visited China in the summer of 1971. He reported:

"After two or three years without classes, many universities began again last fall with a small, handpicked enrollment. At Peking University . . . where there used to be 9,000 students, the new class of September, 1970, numbered 2,667. . . . An astonishing number of the new students are members of the Party or the Communist Youth League. At Sun Yat-sen University in Canton, for instance, 229 of the 547 students are Chinese Communist Party and another 240 are CYL members. " While there are no figures on the percentage of women students among the reduced enrollment, female membership in the CCP has never been anywhere near proportional to the population.

Even today, the traditional family roles women are expected to play begin early to eliminate them from the road to higher education. It would be completely wrong, of course, to impose on China the same demands and expectations that the women's movement raises in the industrially advanced countries. But equally wrong is the tendency of many Western visitors to leave their critical faculties behind when they visit China. The Maoist regime has presided over many profound and important gains for women. But the CCP's conscious policy has often been aimed at subordinating women's demands to considerations of party discipline, placation of backward tendencies, privileges for the administrative hierarchy, and an undisguised sympathy of the

regime for the "bourgeois" family while opposing the horrors of pre-capitalist oppression of women.

Women and the Work Force

The CCP stresses in its claims that the emancipation of Chinese women has essentially accomplished the integration of women into the productive life of the nation. The fact is that there has not been a steady climb in the number of working women; rather, this has varied according to the rate of economic growth, the priorities of various sectors of the economy, and the shifting economic policies between factions in the leadership. When the regime is seeking a rapid increase in productivity through a mobilization of labor power, it praises the liberating effects of being a working woman. When it cannot absorb women into production, however, it glorifies the home.

The existing statistics on women workers in China are scanty and can be misleading. For example, between 1949 and 1957 the number of women employed by industry rose from 500,000 to 3 million. In the same period, however, the overall population grew by some 2 percent a year and the spread of industrialization added male as well as female workers to the labor force. As a proportion of the total number of workers in industry the increase for women was only 2 percent, from 15 percent in 1949 to 17 percent in 1957.

Before 1949 there was a relatively high concentration of women working in the light industries, such as textiles. Under the CCP regime they began to enter new areas of work. In the cities of Darien and Port Arthur in 1951, for instance, there were 1,196 women in 35 kinds of technical and skilled jobs in heavy industry, including operating lathes, repairing ships, and metal casting. Women professors, lecturers, and assistant professors soared from 2,319 in 1949 to 11,207 in 1957. The proportion of women in medicine and engineering is much higher in China than in the advanced capitalist nations. In 1960, 42 percent of the medical students and 17 percent of the engineering students were women. By 1956, women constituted 25 percent of the railway workers and there were many stories in the press about women locomotive drivers. Women were brought into the militia. In 1957, China had a squadron of jet fighters run entirely by women.

In agriculture it is hard to estimate the actual increase in labor done by women, because of the lack of statistics. A survey by John Lossing Buck for the period 1929-33 showed that women made up only 25.36 percent of the rural labor force engaged in farm and subsidiary work (this did not include housework). By 1955 women accounted for 45.2 percent of those employed in the cooperative farms, and in 1957, while this figure had dropped to 43.3 percent, the total number of peasants in cooperatives had grown drastically.

Woman's integration into the work force is crucial in giving her economic independence and in increasing her status and range of choices. However, the liberating effect of productive work can be sharply curtailed if it is not accompanied by adequate day-care and communal facilities, relieving women of their domestic duties. On this score the CCP has made more progress than previous governments; but this is clearly not a top priority. The lack of such facilities has been a major stumbling block to women's equal participation in the labor force. The impressive percentage of women employees in the cooperatives, for example, does not take into account the fewer number of days that women work because of their household responsibilities or the lower pay they receive for their labor.

The regime made an auspicious beginning in organizing child-care facilities. By 1951, the number of nurseries in the cities had increased ninefold since the CCP took power, with more than 15,700 nurseries, kindergartens, and other types of child-care centers, providing for some 520,000 children. For agricultural workers there were seasonal nursery units that looked after 800,000 children during the busy farming periods. But there are roughly 100 million young children in China, so this catered to less than 2 percent of the needs. And in the years of rapid economic growth that followed, day-care facilities in the urban areas actually decreased. Jen-min jih-pao reported on August 5, 1965, that only 165,000 children were under care in the urban areas, as compared to the 1951 figure of 520,000.

The acute need for labor precipitated by the Great Leap Forward policies at the end of 1958 forced the Communist Party to come to grips with the problem of women's domestic labor and the shortage of day-care facilities. A radical attempt was made to communalize living, through mess halls, nurseries, and kindergartens. By 1960, it was claimed that in the rural communes 80 percent of all preschool children were being taken care of. In the cities it was reported that there was a fiftyfold increase between 1957 and 1958 in kindergartens, taking care of 25.5 million children. Forty-seven million children were supposed to be under care of permanent child-care organizations.

One measure of the increased rural labor was in the number of days worked per year. Under the old regime the actual number of days worked per year was, as in any peasant economy, rather low compared to an industrial worker. Moseley gives the figures of 172 days per year for the average peasant in the 1920s, compared with 250 days per year in 1956. Schran, using only official statistical sources, reports that the number of work days jumped from 204 for men and 105 for women in 1957 in the advanced cooperatives (this leaves out time spent on private plots, which were initially abolished by the communes) to 336 days for men and 300 for women in the communes in 1958-59.

The drastic changes attempted in the countryside in the Great Leap period led to de facto sit-down strikes that paralyzed the economy and led to three years of terrible harvests. Women were particularly hard hit by the resulting economic dislocation and decrease of production, being the first to be released from work. Communal eating facilities and day-care centers were disbanded. The burden of domestic work was once again left up to the individual woman. The percentage of women in industry declined from 17 percent in 1959 to 15 percent in 1966.

While the Cultural Revolution reemphasized the need for women to work outside the home, Janet Salaff, a professor at the University of Toronto, estimates that by 1972 the proportion of women workers in industry had only reached the 1957 level of 17 percent. Child care still remains very limited. K. S. Karol was told in 1965 by the director of the Department of Women that nurseries and schools for all, even for a few hours per day, would not be achieved for twenty years. Equal participation in doing housework, urged during the Cultural Revolution, was never a solution. The household tasks are still performed by those who have always performed them, the older daughter, wife, and mother-in-law. The older daughter participates in field labor only after the housework is done. After marriage, women are under social pressure to bear children and perform the household chores.

Wages in industry, which affect only a small minority of Chinese women, are relatively equal between the sexes. In the communes, however, women receive fewer work points than men because they have to do housework, which is unpaid. In 1971 the West German scholar Klaus Mehnert spent some time at Tachai, the model production brigade visited each year by millions of Chinese peasants as the example to strive after in their own localities. He noted that there were ten pay categories at Tachai, ranging from ten work points a day for a strong man to seven for the most productive single woman, to six-and-a-half for a married woman. The weak or the unproductive are paid less. The differences were quite substantial. A man in the top category received 450 yuan per year (US\$180) compared to 300 (US\$120) for the top female wage earners. He questioned two of the women leaders at Tachai on this discrepancy. "But a married woman devotes much of her working energy to her family," they answered. "Those are individual chores. Should the collective have to pay for work not done in the service of the collective?"

In general women are concentrated in the low paying jobs. In agriculture they perform the lighter farm work, which has less prestige and pay.

Women in Management

The most extensive report on the administrative structure of Chinese industry is the work done by Canadian management consultant Barry M. Richman after a two-month investigation at thirty-five major Chinese factories in May and June of 1966. He had previously conducted a similar survey of sixteen factories in the Soviet Union and his direct comparisons add interest to his Chinese observations. Richman, while in the Soviet Union, observed that: "Women constituted 45 percent of all managers and staff specialists at Soviet industrial enterprises in the 1950s, but only 12 percent of the top management positions in Soviet enterprises of all types were held by women." He adds, "I did not come across any in Chinese industry.... I was introduced to six or seven female vice directors — out of a total of about eighty or ninety — in Chinese industry, and only one of them was employed by a heavy-industry plant. "

He summed up his observations: "Roughly 15 percent of the department heads and 10 percent of the workshop directors whom I encountered in Chinese industry were female. Most of these women managers were employed by consumer-goods producers. In general, the proportion of female lower-level managers, particularly floor foremen or group leaders, was substantially higher than higher-level female managers. In some light-industry firms 50 percent or more of the lower-level managers were female, and in a few cases the vast majority of the group leaders were women. In general, there seem to be ample opportunities for female employees to become lower-level managers in Chinese industry, and fairly numerous opportunities to make it to the middle-management level. As a female approaches the top ranges of the executive hierarchy, however, there seem to be substantially fewer opportunities for promotion. "

Women in Politics

In the first years of the Maoist regime, a big drive was launched to involve women in the political life of China. At the lower levels, women's involvement in political activities increased dramatically. Of the local deputies of the People's Congress, women composed 10 percent in 1951, increasing to 20 percent by 1956. Women occupied from 10 to 15 percent of the posts of committee member, chairman, or vice-chairman of the peasant associations. There were some women deputy directors or even full directors, in two-thirds of the Agricultural Producers' Cooperatives throughout the country in 1957. In 1951, women comprised 8 percent of the lower level functionaries; by 1955 this had risen to 14.5 percent. They played a decisive role in the residents committees in urban centers, although these had rather limited responsibilities, looking after sanitation, welfare work, culture, and recreation.

The changes have been dramatic, although we should not lose sight of the fact that the CCP invites participation in politics only on the condition that there is unquestioning agreement with its policies. Even within the framework of the politics of the ruling bureaucratic caste, the position of politically conformist women has not been a steady upward advance. In the early part of 1958 there was retrenchment in the ranks of urban cadres (this was repeated in the second Maoist high tide in the Cultural Revolution). Many were dismissed and it was the women who were more likely to be let go. The Communist Party sought to mobilize women into the labor force during the Great Leap Forward, but it did not encourage women to take on political responsibilities.

With the shakeup of the bureaucracy during the Cultural Revolution and Mao's use of mass forces to destroy opposition with the party, a new drive was opened to bring women under the CCP's political influence and to push back the contrary pressures of the family that had been encouraged by Liu Shao-ch'i. Women were urged to use Mao's works to criticize domineering family members such as parents-in-law or husbands. More women assumed rural leadership positions. But women still remained very much in the minority in political organizations. In one district of Anhwei province, which was singled out for public praise for the number of women appointed to political positions, only 10 percent of the membership of the Revolutionary Committees were women! Janet Salaff estimates that the proportion of women in the CCP has not changed greatly since 1959, when women were only 10 percent of its membership.

In the higher echelons of power the position of women has hardly changed from the fifties, and women remain an insignificant minority. In 1969, at the Ninth Congress of the CCP, only 8 percent of the full and alternate members elected to the Central Committee were women. Two women were on the Political Bureau, and none on the all-powerful Political Bureau Standing Committee where the most important decisions are made. The two women on the Political Bureau after 1969, Chiang Ching and Yeh Chun, were never independent political figures but rose to power through their marriages with Mao Tse-tung and Lin Piao. Wang Kuang-mei, another important political figure, saw her career rise and fall with that of her husband, Liu Shao-ch'i. The purge of Lin Piao in September 1971 led to the downfall of Yeh Chun as well, leaving only Chiang Ching near the top. At the Tenth Party Congress in August 1973 there were still no women elected to the Political Bureau Standing Committee.

Birth Control

The official thinking on birth control has almost never been expressed in direct statements and proclamations. Nevertheless,

some very definite trends can be noted. Birth control was ignored in the first few years of CCP power. Population growth, it was said, was not a problem. It seems that the situation even deteriorated in these years. An editorial in the Peking Kuang jih pao in August 1956 reported that in some pharmaceutical plants the production of contraceptives had been stopped. It also noted that drug stores would neither sell nor show contraceptives to women.

The spiraling population growth prompted a change in policy in 1956 and a mass birth-control campaign was launched. The Ministry of Health demanded that medical and public health organizations at various levels assume the burden of informing people about contraceptives, and that provincial and municipal departments train groups to give such guidance. Abortion was also favored as a technique of birth control. Abortion and sterilization both became easily available in the years 1956-57. In May 1958, the birth-control campaign was abruptly called off. The CCP in its Great Leap Forward policy contradictorily called on women both to participate fully in the labor force and at the same time to reproduce at a heightened rate. It was argued that the strength and wealth of China lay in its population. Abortion and sterilization were discouraged, although still permitted on the advice of a doctor.

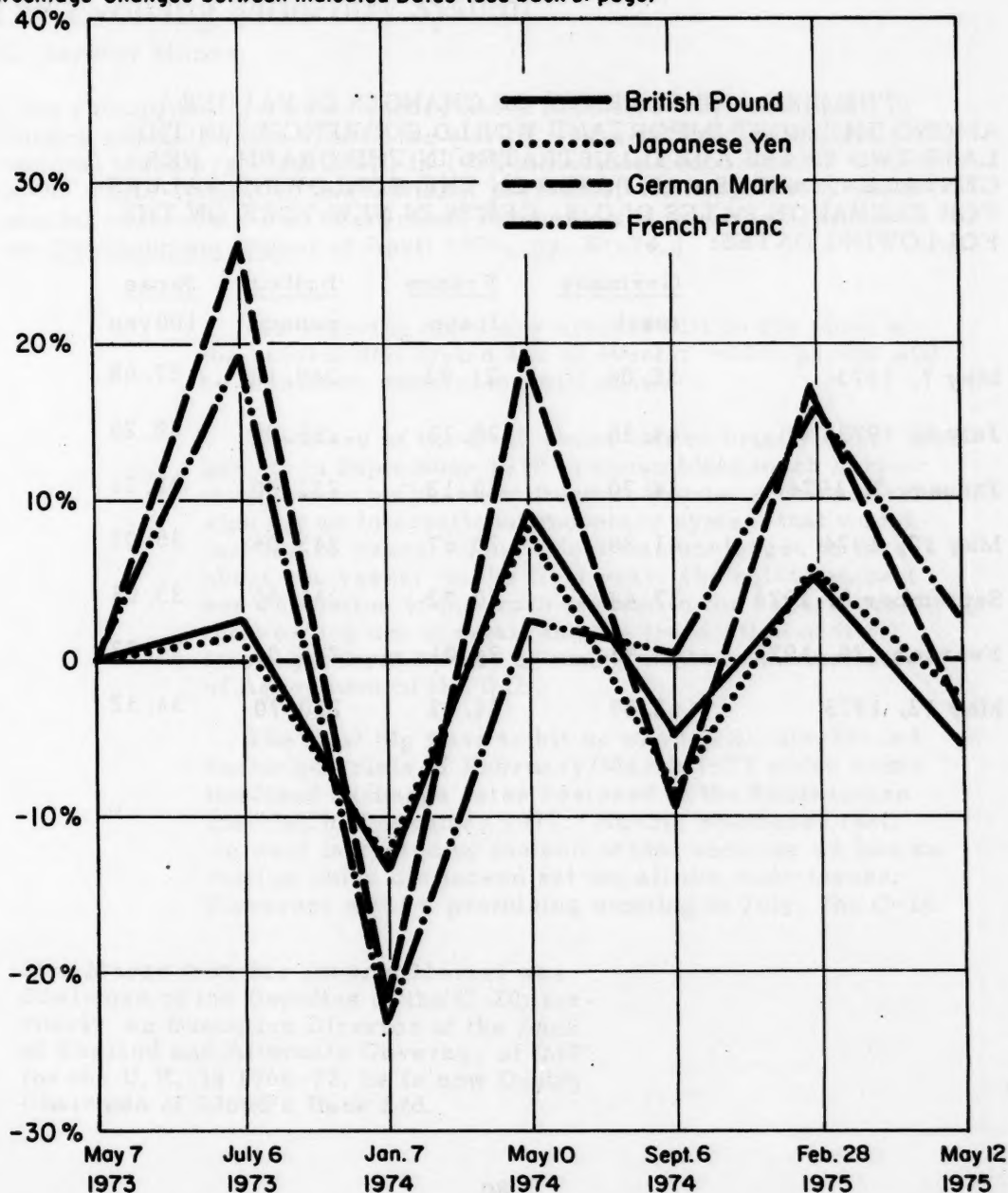
With the failure of the Great Leap Forward a renewed effort was begun to disseminate birth-control information and devices. Except for a brief period during the Cultural Revolution, the Chinese government's policy toward birth control has remained favorable. To get birth control now, a woman has only to call at the village clinic and she is given a free supply of pills or other devices. A great deal of research has gone into finding safe, simple methods of contraception that can be dispensed by lower-level health personnel.

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FLEXIBLE EXCHANGE RATES

● Shifts in Dollar Values of Major Currencies,
May 1973 - May 1975

Percentage Changes between Indicated Dates (see back of page)



THE SIZE AND RAPIDITY OF CHANGES IN VALUES AMONG THE MOST IMPORTANT WORLD CURRENCIES IN THE LAST TWO YEARS ARE ILLUSTRATED IN THE GRAPH. PERCENTAGE CHANGES ARE BASED ON THE FOLLOWING VALUES FOR EXCHANGE RATES IN U.S. CENTS IN NEW YORK ON THE FOLLOWING DATES:

	<u>Germany</u> mark	<u>France</u> franc	<u>Britain</u> pound	<u>Japan</u> 100yen
May 7, 1973	35.06	21.92	249.15	37.68
July 6, 1973	44.30	26.13	256.00	38.25
January 7, 1974	34.70	20.12	222.80	33.33
May 10, 1974	41.38	20.67	243.05	36.03
September 6, 1974	37.44	20.72	231.09	33.05
February 28, 1975	43.93	24.01	243.05	34.92
May 12, 1975	42.89	24.72	230.70	34.32

The Evolving Monetary System

C. Jeremy Morse

[The Committee of Twenty (abbreviated here to C-20), composed of finance officials from around the world, was organized by the International Monetary Fund (IMF) in 1972 to develop proposals for reform in the world system of international payments, exchange rates and financial reserves. For background discussion of monetary reform see Development Digest of April 1973, pp. 41-74.]

The evolving monetary system will be the child of the reform discussion and of events: which parent will be dominant, time alone will show.

The story of the C-20 phase can be briefly told. We set out in September 1972 to consolidate much earlier work and to build, as at Bretton Woods, a complete design for an international monetary system that would last for 25 years. This effort was envisaged to take about two years: in the first year, the establishment and resolution of the main issues; in the second year, the working out of detail and the translation of it all into legal form by way of amendments to the Articles of Agreement of the IMF.

The first big wave to hit us was the double-headed exchange crisis of February/March 1973 which broke the fixed exchange rates restored at the Smithsonian meeting in December 1971. Having weathered that, we went fast, and by the end of that summer we had an outline which did indeed set out all the main issues. However, after a promising meeting in July, the C-20

Mr. Morse (now Sir Jeremy Morse) was Chairman of the Deputies of the C-20; formerly an Executive Director of the Bank of England and Alternate Governor of IMF for the U.K. in 1966-72; he is now Deputy Chairman of Lloyd's Bank Ltd.

decided in Nairobi in September 1973 that it would not resolve these issues. Instead, the Deputies were asked to go on and work out the detail for the unresolved alternatives, in the hope that this would make resolution easier. Then the second, and more unexpected, wave hit us —the towering rise in oil prices with its threatened disturbance of the whole balance of payments structure. The C-20 meeting in January 1974, in Rome, changed tack. Recognizing that the return to par values and all that goes with it was likely to be delayed, they decided to switch to a more evolutionary process of reform, and to concentrate now on those aspects that were most relevant to the present situation. So, since then, the Deputies have collected their work on the reformed system, principles, and details into a final version of the Outline, which still leaves some issues open for later decisions; and have also prepared a package of proposals for immediate steps to deal with current problems and to give the evolution a starting push. The C-20 concluded its work in June 1974.

Why was the original aim of a complete design of reform not achieved? I have already mentioned some events which affected the course of the negotiation, the breakdown of fixed rates and the rise in oil prices. But, despite these events, it would still have been possible to complete the design now for later implementation. This was done at Bretton Woods: many features of the system designed there were not brought into effect for five or ten or even more years. I would cite two other factors that have played a part in slowing our work.

One is inflation. We are going to need books about inflation in the period ahead, not paragraphs. For many observers of the international monetary scene, but not for all, it is intuitive that high levels of inflation make it hard to maintain par values (i. e. officially fixed exchange rates) or, more generally, a fully structured international system. Par values depend on a reasonable degree of confidence, on the part of governments as well as the market, that rates will remain reasonably stable over a reasonable period. Inflation brings uncertainty. It is theoretically possible that rates of inflation, though high, will be at much the same level in different countries or that differentials, if they occur, will be equilibrating. But neither governments nor markets can be confident of this.

The second factor is what is loosely called "lack of political will." This needs some analysis. There has been no lack of competence: such tactical errors as may have been made have not been critical. Equally, there has been no lack of courtesy, or of the understanding of the interests of others which is the basis for courtesy. What has been insufficient at times —and needs constant fostering —is the will to active cooperation, which is a powerful motive in business life and which is the mainspring of private life. By this I mean the

will to agree and do things together in the common interest even though they may not be precisely what any of the parties would have chosen, and the will to help or accommodate others in the expectation of receiving similar help or accommodation in future. The fact that, since the time of Bretton Woods, political power has become more equally spread among the members of the Fund means that there is a correspondingly greater need, and more widespread responsibility, to maintain the habit of active cooperation.

The basic task of the Committee and its Deputies was not an easy one. It is not easy to focus and fix a conception of an international system for the medium term, with all its essential detail, in so many minds. I believe that we have fixed the broad conception, but some of the essential detail — essential in the sense that its determination will influence at least the character of the system — is left to the international community, and to events, to shape into final form.

The Emerging System

What then is the nature of the emerging or evolving international monetary system?

Flexibility. Such systems are often classified by their exchange rate mechanisms — as a fixed-rate system, a floating system, etc. This is no doubt an inadequate approach, since exchange rate changes, and the mechanism for making them, are only part of the adjustment process, which is itself only part of the whole system. Nevertheless, there is something to be said for it. In a system of free floating, all adjustment would in theory take place automatically through the exchange rate and there would be no need of reserves. As one moves through the spectrum from free floating, through increasing degrees of management of floating, to stable but adjustable par values and finally, fully fixed rates, so the importance of other forms of adjustment action and of an adequate supply of reserve assets increases. Thus, the relative flexibility or fixity of the exchange rate mechanism may be said to determine the degree of articulation of the system as a whole.

Classified by its exchange rate mechanism, the reformed system is a more flexible par value system. It might be described as a middle system with a policy bias toward par values. It provides for floating in particular situations; and thereby it admits the possibility of widespread floating, since the U. S. dollar might float in a particular situation and for some years to come this would be likely to lead to widespread floating. Nevertheless, it is to be based upon stable but adjustable par values and is to be equipped with intervention and convertibility arrangements which do not belong to widespread floating.

It is in this area that the tussle between the reform discussion and events is most obvious. If the reformed system incorporates a policy bias toward par values, market forces in the period ahead may continue to push the other way. Any improvement in market stability arising from the correction of the imbalance between the U. S. and other major countries may well be offset by the uncertainties arising from the new oil imbalance and from generalized inflation, as well as by the continuing opportunities for short-term capital movements in a commercially and financially integrated world. But there is a counter-check to market tendencies to push the system too far toward the floating end of the spectrum; for it is evident that governments in the 1970s as in the 1930s are unwilling —except for relatively brief periods when the hurricane rages or the dikes break —to let their exchange rates go where they will.

If one looks back over the exchange market experience of the past two years, one would have to be a naive fixed-rater to believe that par values could have been made to work over that period and, equally, one would have to be a naive floater to be complacent about the size of the fluctuations in rates. The fact is that we are caught in the middle part of the spectrum and we have to learn to live there. While present instabilities and uncertainties persist, we shall have more or less managed floating, which should be subject to general guidelines designed to improve the international consistency of countries' policies. As and when conditions improve, we may arrive at a degree of cooperative management of floating rates which differs only from a par value system in the absence of announced margins for speculation to test, and from there make the step to stable but adjustable par values. Alternatively we may build on regional currency arrangements, and arrive that way at a general pattern of par values. What we will not have are either rigidly fixed rates or freely floating rates.

The SDR standard. A second way in which international monetary systems are often classified is by their principal reserve asset or assets —as the gold standard, the gold exchange standard, the dollar standard. In these terms, the reformed system is to be the SDR standard. But although that objective is clear, it is going to take some time yet to achieve. In the interim we will have to continue to struggle with the existing heterogeneity of reserve assets; and it will be important, in finding appropriate interim arrangements for reserve currencies and gold, not to lose sight of the medium-term objective for the SDR.

As to reserve currencies, although the nature of the settlement arrangements in the reformed system, and consequently the degree of international control over the level of reserve currency balances, is one of the unresolved questions, the principle of control is clearly established. We hope to plant the seed of this in the interim period,

by an injunction to the Fund to watch over the levels of reserve currency balances and, if they are rising too fast, to consult with issuers and holders about the possibility of reduction. This may not seem very operational at a time when most countries are fearful lest they may not have enough of such balances to meet prospective large deficits. But there is an obvious danger that we may come out of the present balance of payments disturbance with an increased overhang of reserve currency balances. I would therefore expect the need for better control, in the interests of both issuing and holding countries, to reassert itself before long; and I am confident that the small seed we are planting will grow.

It was not possible within the timespan of the C-20 to reach an orderly settlement of the immediate questions about gold. Granted the concern of European countries about the usability of their gold to finance prospective deficits, some important medium-term objectives of the reform are also involved. Any arrangements in this area should not do down the SDR. More immediately, it would be intolerable if they gave rich developed countries an effective increase in liquidity to meet oil deficits, while nothing was done for those developing countries which face similar deficits with generally weaker borrowing power.

I would guess that these questions of liquidity for both developed and developing countries are going to be very topical in the coming months. Should they issue in action, it would be helpful if that action involved some promotion of the SDR. For, although the survival of the SDR is not in question — indeed currency uncertainty is plainly pushing the world toward units of account, and the SDR, as the Fund's unit of account, will be increasingly used in international transactions — the SDR will nevertheless need positive promotion if it is to become the principal reserve asset. The question of volume is important here. At present SDRs are too small a percentage of global reserves. When the appropriate time comes, the opportunity must not be missed to increase that percentage by allocation of new SDRs or by their substitution for other reserve assets.

Management. A third way in which national economic systems, and also international systems, are classified is by the degree of management they involve — as market systems, managed systems, planned systems, mixed systems. In these terms, the reformed system is an internationally managed system. That is implicit in the features I have already touched on, the policy bias towards par values in the exchange rate mechanism and the promotion of the SDR. It has been explicit in the American proposals for a reserve indicator structure supported by graduated pressures to assure prompt adjustment, and in the European proposals for mandatory settlement in assets to control the level of reserve currency balances.

It is useful to be more precise about this rather wide-ranging concept of management. Within the context of some very general objectives — promotion of world trade, promotion of economic development and avoidance of inflation — we have established a consistent set of principles to govern the adjustment process, the convertibility system, the management of global liquidity, and the transfer of real resources to developing countries. We have then sought to devise procedures by which the IMF — meaning thereby the international community operating in and through the Fund — would manage the system in accordance with these principles. In arguing about these procedures, we have in many areas of the system distinguished between three different degrees of management, which we have called automatic, presumptive, and discretionary. This has been the case in relation to the use of reserve indicators, application of pressures or sanctions, conditions for the authorization of floating, settlement rules and their relaxation, and the supply of global reserves.

To define the three terms a little more: an automatic process of management is one which is closely guided, or even predetermined, by precise and detailed rules laid down in advance, to the effect that when such-and-such a condition, qualitative or quantitative, is fulfilled, countries (or the Fund) will do such-and-such. A presumptive process is one in which such precise and detailed rules will generally apply, but there is provision for the Fund to meet and, by an appropriate majority, to decide to override the rules in particular cases. A discretionary process is one in which the fulfillment of the conditions leads simply to a consultation and assessment in the Fund, to be conducted of course in the light of the principles involved.

The C-20 started its work amid the breakdown of the Bretton Woods system, with a general cry for new, clear, and precise rules. So it was natural that at the outset we were examining proposals for automaticity or near-automaticity in several areas of the system. It was also natural that this approach was most strongly advocated or resisted by different countries in different areas according to whether they felt that their interests in those areas had been more or less damaged by the working of the discretionary approach in the preceding period. The United States had been dissatisfied with the working of the adjustment process, particularly on the part of surplus countries; the Europeans and Japanese with the settlement process, particularly on the part of reserve centers; and the developing countries with the volume and predictability of the flow of real resources to them.

However, as the debate went on, we generally moved away from automaticity, not only because of these resistances in particular areas, but also because the attempt to formulate precise rules in advance either pointed up the danger of applying them too rigorously or, in some cases, came to nothing. The debate therefore shifted to the

presumptive/discretionary area, and it is here indeed that some of the main outstanding political decisions — affecting, as I said earlier, the character of the system — remain to be taken. Until those decisions are taken and the reformed system is more fully established, the management of the system will depend solely — as it must always do largely — on consultation, assessment, and cooperation. The IMF must bear the main burden of this. It is already shouldering the burden in good heart, and in a better atmosphere than prevailed when the Committee of Twenty began its work.

Toward greater international authority. Finally, an international monetary system is sometimes classified by the quality of its internationalism — as a one-world system, a bloc system, etc. Two sorts of question are involved here: what, if any, differentiation between countries or groups of countries should there be in the system; and what should be the balance of authority and responsibility between national governments on the one hand and the international community, represented by its institutions, on the other.

As to the latter question, the reformed system aims to take a step forward to greater international authority in all the main areas, but not a frighteningly large step. It gives the IMF the right to call on countries to take adjustment action, and in extreme cases to reinforce that call with pressures, while leaving them to choose the particular form of action. It aims to control, more or less tightly, the aggregate levels of different reserve assets, while leaving countries free to exercise some choice in the mix of their own reserves within those aggregates. It looks to an adequate aggregate flow of real resources to developing countries, while not dictating precise aid targets or balance of payments aims.

Even these steps, modest as they must seem to the convinced internationalist, are not easy to take in the short term. Nations are like the individuals who compose them. So, in difficult times like the present, they pay more regard to their self-interest and try to preserve their freedom to act in that self-interest. But, equally, they can be influenced and persuaded to consider the common interest, and they know that they have to live together ever more closely: and therein lies a sure hope of advance.

As to differentiation between countries, the very constitution of the C-20 reflected the one-world approach, within the limits — I hope to be enlarged — of Fund membership. Our work has maintained that approach. It is true that the reformed system makes allowance at a few points for the special circumstances of reserve centers and oil producing countries, and more widely for those of developing countries. But the principles of the system are of general application — the temptation to exempt groups of countries has been resisted. The

aim of greater symmetry, between countries, between reserve centers and other countries, between large and small countries, has been accepted in the spirit as well as in the letter.

I believe that events are working in the same direction. No doubt, a handful of major countries will meet among themselves from time to time as they have done during the past two years, to sort out their own differences and to agree on procedures. No doubt, the existing distinction between developed and developing countries will be maintained, and each group will do their caucusing, as they have been doing it in the Organization for Economic Cooperation and Development (OECD) and in the Group of 24. It may also be that, during the coming period, when we are travelling from the dollar standard to the SDR standard, regional groups will form around three or four key currencies in what has been called a "multipolar" pattern.

But if we look more closely at these various types of grouping, it is evident that they will not be sufficient for the evolving system. Much though the major countries can do to assist the smooth running of the system, they can no longer run it by themselves. As to developed and developing countries, the two groups are recognizably less homogeneous and there are more and more strands that cut across the distinction. To take two that are obvious in the present situation: first, the oil-producing developing countries are becoming partners with the developed countries in giving aid to the oil-importing developing countries; secondly, the smaller developed countries and the more prosperous developing countries are likely to have a similar approach to the problem of financing their oil deficits — they will borrow on the market if they are not squeezed out of it by the major countries and they will be natural beneficiaries of the Fund's new oil facility. Finally, what is a multipolar pattern but a new, longer and less pejorative name for "blocs"? And that change of name is significant. For it reflects the likelihood that regional groupings in the seventies and eighties will be less exclusive, and so relatively benign: they will be loose-knit, and they will be forced to recognize their interdependence.

All this illustrates one of the basic facts of modern international life, particularly evident in the multifarious fields of trade and money, namely that power and interest have become more diffused and more plural. Consequently, whatever smaller groupings may form, they will not be, as I have said, sufficient. We shall continue to need, and we must therefore make every effort to develop further, the one-world approach of the Fund, the World Bank and the GATT (General Agreement on Tariffs and Trade).

Will this mean the continuance of large meetings at various levels in and around those institutions? I believe so; and in what has been called "the era of negotiations" it will not be beyond the wit of man to

make such meetings effective and interesting. After all, to meet to discuss present problems and plan the future with all concerned is an important part of living together, in difficult times a very important part.

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Editorial Note: It appears that the world is moving into a phase of considerably more flexibility in exchange rates than heretofore. This is not only because somewhat more flexibility is being built into the proposals for a new system, as described above, but because accelerated inflations and the other forces mentioned may well bring about even more frequent changes in currency values than envisioned by the C-20, and also because the floating of exchange rates seems to be acquiring wider acceptability. The effects of such flexibility have been most often analyzed for currencies of the industrial countries. (For a discussion of developing country reactions to flexibility in the rates of their major trading partners, see Development Digest, April 1973, pp. 71-74.) In the three articles which follow we will focus on issues bearing on developing country policies toward changes in their own exchange rates. The first article surveys the postwar devaluation experiences of developing countries up to 1970. The next analyzes the results of Brazil's frequently shifting rate. The final article, in contrast, examines some pros and cons of the exchange and monetary stability found in the C. F. A. franc zone of Africa.

Currency Devaluation in Developing

Richard N. Cooper

[Devaluation of a country's currency has usually been undertaken with great reluctance by political leaders wary of the economic and political impact. The following analysis of experience with 36 devaluations by developing countries between 1953 and 1970 indicates that fears of the economic consequences of devaluation have tended to be exaggerated, though political reactions seem often to be negative.]

Currency devaluation has been one of the most dramatic —even traumatic —measures of economic policy that a government may undertake. It almost always generates cries of outrage and calls for the responsible officials to resign. For these reasons alone, governments are reluctant to devalue their currencies. Yet under the rules of the international monetary system laid down in the Articles of Agreement of the International Monetary Fund, devaluation is encouraged whenever a country's international payments position is in "fundamental disequilibrium," whether that disequilibrium is brought about by factors outside the country or by indigenous developments. Because of the associated trauma, which arises because so many economic adjustments to a discrete change in the exchange rate are crowded into a relatively short period, currency devaluation has come to be regarded as a measure of last resort, with countless partial substitutes adopted before devaluation is finally undertaken. Despite this procrastination, over 200 devaluations in fact occurred between the inauguration of the IMF in 1947 and the end of 1970. In addition, there were five upvaluations, or revaluations, of currencies.

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By convention, changes in the value of a currency have [until recently] been measured against the American dollar, so a devaluation means a reduction in the dollar price of a unit of foreign currency or, what is the same thing, an increase in the number of units of the currency that can be purchased for a dollar. By law, changes in currency values are measured in gold, but since the official dollar price of gold was unchanged from 1934 to 1972 these changes amounted to the same thing. Except when many currencies are devalued at the same time — as they were in September 1949 and to a much less extent in November 1967 (when over a dozen countries devalued with the pound) and August 1969 (when fourteen African countries devalued their currencies along with the French franc) — a currency devaluation against the dollar is also against the rest of the global payments system, that is, against all other currencies.

Only a baker's dozen of countries did not devalue their currencies at least once during the period 1947-70: Japan, Switzerland, and the United States among developed countries, and ten less developed countries, mostly in Central America. Largely because they are so numerous, but partly also because they devalue on average somewhat more often than the developed countries do, less developed countries account for most currency devaluations. Yet the standard analysis of currency devaluation, which has advanced substantially during this period and is still being transformed and further refined, fails to take into account many of the features that are typical of developing countries today, and which influence substantially the impact of currency devaluation on their economies and on their payments positions.

This essay attempts to do three things. First, it sketches very briefly the prevailing analysis of currency devaluation. Second, it suggests why this analysis has to be modified to take into account the diverse purposes to which the foreign-exchange system is put in many less developed countries. Third, it draws on experience with three dozen devaluations to see to what extent the anxieties of government officials, bankers, traders, and even some economists about devaluation and its effects are justified, and interprets some of this experience in light of the earlier theoretical discussion.

A Summary of the Theory of Devaluation

In analyzing devaluation, the exact nature of the initial disequilibrium is important, and much analysis misleads by its focus on economies that are assumed to be in equilibrium at the moment of devaluation. Suppose we have a country which for reasons past has money costs that are too high to permit it to balance its international payments at a level of domestic economic activity that is both desired and sustainable, and as a result it must finance a continuing payments deficit out of its reserves, a process that obviously cannot continue indefinitely. Correction of the payments imbalance by reducing

aggregate demand would lead to unwanted unemployment because of the rigidity of factor incomes in money terms, especially wages. Perhaps ultimately the pressure on costs and prices of a depression in activity would restore an equilibrium level of costs and prices that would lead to payments balance at full employment, but the transitional depression might have to be long and painful. The recommended alternative is devaluation of the currency, which at the stroke of a pen lowers the country's costs and prices when measured in foreign currency. Analysis of the effects of devaluation on the country's economy and of the mechanism whereby it eliminates the payments deficit has proceeded under three quite different and apparently contrasting approaches: the elasticities approach, the absorption approach, and the monetary approach.

The elasticities approach focuses on the substitution among commodities, both in consumption and production, induced by the relative price changes wrought by the devaluation. For a small country, we can assume that the prices in domestic currency of foreign-trade goods—exports, imports, and goods in close competition with imports—will rise by the amount of devaluation. This rise will divert purchases out of existing income to nontraded goods and services, thereby reducing domestic demand for imports and for export goods, releasing the latter for sale abroad. When the country is large enough to influence world prices, domestic prices may rise by less than the amount of devaluation, since prices in foreign currency will fall somewhat in response to the reduction in our country's demand for imports or to the increase in its supply of exports. There is some presumption that most countries will have a greater influence on their export prices than on the prices at which they import, so the rise in local prices of exports will be less, and the terms of trade will deteriorate.

The shift in relative prices operates both on consumption and on production. Consumption will be diverted to lower-priced nontraded goods and services, releasing some existing output for export and cutting demand for imports. At the same time, increased profitability in the foreign-trade sector, arising from the fact that prices in domestic currency have risen more than domestic costs, will stimulate new production of export and import-competing goods, and will draw resources into these industries. If excess capacity happens to exist in these industries, the resources drawn in will be variable ones—labor and materials. Otherwise new investment will be required; in agriculture, land may have to be recropped or herds rebuilt.

The elasticities approach gives rise to the celebrated Marshall-Lerner condition for an improvement in the trade balance following a devaluation: that the elasticity of demand for imports plus the foreign elasticity of demand for the country's exports must exceed unity, which is to say that the change in the quantity of imports and exports demanded together must be sufficiently great to offset the loss in foreign earnings

consequent upon lowering the price of exports in foreign currency. This condition assumes initially balanced trade, finished goods, and elastic supply of exports both at home and abroad, but may be modified to allow for initial trade imbalance, for less than perfectly elastic supplies of exports, and for intermediate products.

The absorption approach shifts attention from individual sectors to the overall economy. Its basic proposition is that any improvement in the balance on goods and services must, in logic, require some increase in the gap between total output and total domestic expenditure. It starts from the identity $DE + X = Y + M$, where DE is total domestic expenditure on goods and services and X is total foreign expenditure on our country's goods and services (exports); the sum of these two represent total "absorption" of the goods and services available to the country, which derive from its own aggregate output, Y , plus imports from the rest of the world, M . Rearranging the terms yields $X - M = Y - DE$, which shows that any trade surplus reflects an excess of output over domestic expenditure, and vice versa for a trade deficit. It follows that to reduce a deficit requires a corresponding reduction in the gap between output and expenditure. Excess capacity and unemployment will permit an increase in output; otherwise expenditure must be reduced. Without such a reduction, there can be no improvement in the balance, regardless of the elasticities. This analysis points to the policy prescription that devaluation must be accompanied by deflationary monetary and fiscal policy to "make room" for improvement in the balance, a prescription to which we shall return below.

The monetary approach to devaluation focuses on the demand for money balances and the fact that an excess demand for goods, services, and securities, resulting in a payments deficit, reflects an excess supply of money. Devaluation is equivalent to a decline in the money supply and in the value of other financial assets denominated in local currency, when measured in foreign currency. The real value of the money supply will be reduced by devaluation because initially the local prices of traded goods and services, and secondarily those of nontraded goods and services to which demand is diverted, will rise. The public will accordingly reduce its spending in order to restore the real value of its holdings of money and other financial assets. This reduction in expenditure will produce the required improvement in the balance of payments. For a country in initial deficit, the right devaluation will achieve just the right reduction in the real value of the money supply, and the deficit will cease. To restore lost reserves, the country must devalue by more than that amount in order to achieve a surplus. But once the public has reattained its desired financial holdings, expenditure will rise again and the new surplus will be eliminated. On this view, a devaluation beyond the equilibrium point has only a once-for-all effect. A key implication of this approach is that

if the monetary authorities expand domestic credit following devaluation to satisfy the new demand for money, the effects of the devaluation on international payments will be undermined.

These three approaches are complementary rather than competitive — they represent different ways of looking at the same phenomenon, and each has its strengths and weaknesses. All factors are present to some degree even immediately following devaluation. In the first stage relative prices normally do change as assumed by the elasticities approach, and this in turn will alter the patterns of consumption and, in the right circumstances, of production, encouraging the necessary increase in net exports. With initial excess capacity, these alterations will generate additional income, which by leading to additional expenditure will in turn damp down the improvement in the trade balance; without it, the switch in demand toward home goods will tend to bid up their prices. But unless the monetary authorities expand domestic credit the rise in prices will not be sufficient to eliminate the change in relative prices initially brought about by the devaluation, and some improvement in the trade balance will remain.

All this is consistent with the monetary approach. The pre-existing disequilibrium reflects not only an excess supply of money but also a misalignment of relative prices between home and tradable goods, since the fixed-exchange-rate link with the world market diverts the impact of those excess holdings of money into demand for imports rather than higher prices in the foreign-trade sector. The appropriate devaluation simply corrects this disequilibrium set of relative prices and at the same time lowers the real value of money holdings and, hence, expenditures. It therefore has a durable effect.

Whether the second stage of the elasticities approach — the new investment in the foreign-trade sector — comes into play depends in large part on whether the structure of potential output was seriously affected during the disequilibrium period before devaluation. If the disequilibrium had persisted for some time, or if investors were prompt to respond to profitable opportunities and failed to anticipate the eventual need for devaluation, then there would be excess capacity in the home-goods sector and deficient capacity in the foreign-trade sector from the viewpoint of long-run equilibrium, and the second stage would come into play. Otherwise, there would be sufficient capacity in the foreign-trade sector not fully utilized before devaluation, and no change in the structure of potential output would be necessary.

The impact of growing cost-price disequilibrium on production in the export industries, and its subsequent reversal after devaluation, can be illustrated graphically by Finland's experience. Here a "zero line" marks the boundary north of which it is unprofitable to cut and transport timber to the south for export. As cost inflation proceeded

in the 1950s, this zero line gradually moved southward, to the point in 1957 that it was only about 200 miles from the south coast. Following the 1957 devaluation, the line shifted markedly northward again.

Distributional effects. There is a distributional counterpart to these allocational changes which should be explicitly acknowledged, since distributional considerations are so important in less developed countries. A devaluation will raise the "rents" on all factors working in the foreign-trade sector, that is entrepreneurial returns in industries engaged in export and those in competition with imports. At the same time, the real income of other groups (including the government) will decline because of the rise in prices of these goods. If the higher profits are expected to continue, managers in these industries will expand output and in so doing will bid up the prices of other factors of production used extensively in the foreign-trade sector, leaving a distributional effect in the end that may favor labor, even though it favored certain profits initially. Since we started with a disequilibrium pattern of expenditure and a disequilibrium distribution of income (for a given tax regime), both produced by the misalignment of prices between traded and nontraded goods, the new position brought about by appropriate devaluation will persist unless it is disturbed by other factors.

But the speed with which the initial distributional effect is transformed to the ultimate effect, and the chance that the ultimate effect will not be disturbed, will vary greatly. It is here that "money illusion" enters the picture, provided that term is interpreted broadly to cover cases where the decline in real income from a rise in prices is perceived and accepted when a reduction in money wages would not be accepted. There are many reasons for such "illusion" to be present, not the least of which is the maintenance of contracts in business transactions. When workers leave jobs in the home-goods sector to take up jobs in the foreign-trade sector, they may be willing to move at real wages lower than their pre-devaluation wages in the expectation of greater job security. Thus, while money illusion is not normally necessary for devaluation to be successful in improving the trade balance, the more widespread it is, and the longer it lasts, the greater will be the gain to reserves in the period following a given devaluation.

In another respect money illusion is even more important. Some factors of production profited (at the expense of others, and of the national reserves) before the devaluation, when the domestic costs of foreign-trade goods were too high. This state of affairs was not sustainable in the long run; but those parties who did profit may be most reluctant to accept the reduction in real rewards that is in fact necessary, given the regime of taxes and other policies that affect the distribution of income. If through "bargaining power" (strong unions,

administered prices) they succeed in raising their money incomes enough to restore their pre-devaluation level of real income, then the initial disequilibrium will also have been restored. The authorities will be forced to devalue again in the hope that it will work the second time. Or they may in the end have to reduce domestic demand, thereby creating unemployment and damaging all groups (although not equally), as the only way to resolve the incompatible objectives of payments equilibrium and the levels of real income acceptable to those who benefit from the disequilibrium. Money illusion will help to resolve the difficulty by permitting the groups in question to accept lower real incomes while keeping up appearances with somewhat enlarged money incomes.

Modification in the Analysis for Devaluation in Most Developing Countries

The foreign-exchange system of a country can be used to pursue many objectives other than clearance of the foreign-exchange market. These functions range from fostering industrialization, improving the terms of trade, and raising revenue to redistributing income among broad classes and even doling out favors to political supporters. A practice used frequently to accomplish all three of the first objectives, and also to redistribute income, is to give primary export products a rate of conversion into local currency lower than the rate that importers must pay to purchase foreign exchange and that exporters of non-traditional products receive. Import-substituting investment is stimulated by the unfavorable rate on imports, foreign export prices are higher than they otherwise would be in the rare event that the country can influence world prices for its products, and the government gains revenue from the often substantial difference between the buying and selling prices of foreign exchange. Similarly, imported consumer goods are often charged a rate much higher than imported investment goods, in an effort to stimulate investment in manufacturing (and with the undesirable side-effect of encouraging modes of production that use relatively more capital and relatively more imported ingredients or components). Finally, and not least, the exchange system can be used to redistribute income between broad classes, as for example, in Argentina when the exchange rate applied to traditional exports, meat and wheat, was deliberately kept low for a number of years with a view to keeping down the cost of living for urban workers. All these functions involve multiple exchange rates, that is, charging different exchange rates according to the commodity or service, the origin or destination, or the persons involved in the transaction. As such, they inevitably invite arbitrage and require policing — as do taxes, which they often replace in function.

Moreover, politicians have learned that an objective achieved indirectly is frequently socially acceptable when direct action would not

be. It is much easier for an interest group to mobilize successfully against an export tax than it is to mobilize against an over-valued currency supplemented by high import tariffs and perhaps some export subsidies, even though the two systems might have precisely the same economic effects. As Fritz Machlup has said: "We have often seen how disagreements among scholars were resolved when ambiguous language was replaced by clear formulations not permitting different interpretations. The opposite is true in politics. Disagreements on political matters, national or international, can be resolved only if excessively clear language is avoided, so that each negotiating party can put its own interpretation on the provisions proposed and may claim victory in having its own point of view prevail in the final agreement." Machlup was speaking of language, but the same is true of action; a roundabout way of accomplishing a controversial objective will often succeed where direct action would fail because it obscures, perhaps even from the policy-makers themselves, who is really benefitting and who is being hurt.

The difficulty is that the pursuit of these diverse objectives too often leads to neglect of the function of the exchange rate in allocating the supply of foreign exchange. When balance-of-payments pressures develop (sometimes as a result of inflationary policies, which in the short run are also a successfully ambiguous way to reconcile conflicting social objectives), officials then engage in a series of patchwork efforts and marginal adjustments to make the problem go away (raising tariffs here, prohibiting payments there), which may disturb the original objectives as well as coping only inadequately with the payments difficulty. When devaluation finally occurs, in consequence, the occasion is also taken (sometimes under pressures from the IMF or from foreign-aid donors) to sweep away many of the ad hoc measures that have been instituted to avoid the necessity for devaluation. This fact makes currency devaluation in many developing countries (and some developed ones) a good deal more complex than a simple adjustment of the exchange rate, and the analysis must be modified to take these other adjustments into account. [The revised analysis is omitted from this extract.]

Some Evidence on the Impact of Devaluation

As noted in the introduction, currency devaluations have occurred with some frequency in the last 25 years, averaging nearly ten a year, despite widespread reluctance to engage in them. Many of these were small, or were by countries with inadequate statistics, or were by developed countries, or were part of a larger movement of exchange rates of one block of countries as against another — the last kind of devaluation raising rather different issues for analysis. The evidence drawn on here derives from a study of 24 major single-country

devaluations by developing nations over the period 1953-66 supplemented by some experience with a dozen devaluations in the late 1960s. We are concerned here with the immediate impact effects of devaluation. These start the transition to the longer-term effects, if they are given a chance to work themselves out: they often determine whether the longer-term effects will be able to work.

Officials have notoriously short planning horizons, and their anxieties about the impact effects of devaluation often lead to a postponement of devaluation and the substitution in its place of numerous ad hoc measures, imposing substantial costs by impeding the efficient operation of the economy. The reluctance of officials arises in large measure from the considerations adduced in the introduction: devaluation will disturb an implicit social contract among different segments of society —or at least will jar some groups out of their acquiescence in the existing state of affairs —and officials are understandably anxious about rocking an overloaded and delicately balanced boat. But sooner or later the decision may be forced upon them, when for external or internal reasons the external disequilibrium deepens and a suppressed deficit becomes an open deficit which can be corrected only by disturbing the social equilibrium anyway.

More specific anxieties expressed about the consequences of devaluation can be grouped under four headings: (1) Devaluation, it is feared, will not achieve the desired improvement in the balance of payments, because neither imports nor exports are sufficiently sensitive to relative price changes within the acceptable range of such changes —i. e. elasticity pessimism. (2) Devaluation will worsen the terms of trade of the country and thus will impose real costs on it. (3) By raising domestic prices, devaluation will set in motion a wage-price spiral that will rapidly undercut the improved competitiveness that the devaluation is designed to achieve. (4) Whatever its economic effects, it is thought that devaluation will be politically disastrous for those officials responsible for it. Let us see to what extent these fears are justified by experience, adopting the short-run perspective of the official.

Impact on trade and payments. In nearly three-fourths of the three dozen devaluations examined the balance on goods and services, measured in foreign currency, improved in the year following devaluation. In 90 percent of the cases either this or the overall monetary balance (often both) improved in the year following devaluation. Of the four countries that showed a worsening on both counts, two involved important import liberalization resulting in a rise in imports, and one (Israel) was engaged in sporadic warfare and was running down reserves to build up its defense position. Of course, these actual improvements could have taken place for reasons independent of the devaluation. However, the adjustment of the trade data to allow for movements in world demand and for changes in the level of domestic activity reveals a slight increase

in the number of countries improving their trade balance following devaluation.

These improvements occurred despite the good reasons for being an elasticity pessimist about developing countries. No doubt some part of the improvement both in trade and in overall payments can be explained by speculative effects: an overbuying of imports prior to an expected devaluation, with excess inventories thereafter. But not all of it can be explained in that way, for the second year following devaluation usually showed a preservation of, and sometimes a substantial increase in, the gains. The fact that supply elasticities are low in the short run helps in theory to assure that there is little or no loss in export receipts such as would arise if supply could be increased rapidly at unchanged domestic prices. A steadiness in export earnings, combined with some reduction in imports, will assure some improvement in the trade balance, but only a modest one. In only five of the cases examined did the improvement in the trade balance exceed the initial trade deficit, thereby swinging the country into trade surplus — a fact that should not be surprising for countries that normally import capital from the rest of the world.

Interestingly enough, most of the countries that liberalized imports experienced a reduction in the volume of imports in the year following devaluation — partly because of a decline in activity and a switching away from imports to domestic sources of supply, but even more because import liberalization was often delayed from three to nine months following the devaluation, apparently reflecting a wait-and-see attitude on the part of the authorities toward the devaluation. In delaying, however, they increased the risk of a wage-price spiral.

Impact on the terms of trade. Many countries do not have even reasonably comprehensive data on the prices they pay for imports and receive for their exports, hence on their terms of trade. Among those that do, somewhat under one-half showed a deterioration in the terms of trade following devaluation. But some of these deteriorations were independent of the devaluation, and in any case all were small relative to the size of the devaluation — one or two percent, compared with nominal devaluations ranging from ten to nearly 70 percent.

The negligible deterioration observed in the terms of trade may of course have been due to preventive measures taken by the devaluing countries. Most of them imposed special taxes or a disadvantageous exchange rate on certain exports of primary products. But usually these taxes were imposed for distributive or revenue reasons, not to prevent a deterioration in the terms of trade through a fall in foreign-currency prices of exports. A standard pattern, for example, is to impose a tax roughly equivalent to the amount of devaluation on exports out of the current harvest, on the ground that the quantity of such

exports can be increased only marginally (unless domestic consumption is substantial) and there is no reason to pass windfall gains on to the farmers. The new exchange rate is applied to subsequent harvests. In other instances the tax has been imposed to prevent an immediate rise in the domestic price of an export product important in local consumption, such as olive oil in Greece. In both cases it is a rise in domestic prices, not a fall in foreign ones, that the authorities are guarding against.

Preoccupation with the terms-of-trade effects of devaluation in fact reflects a misunderstanding of the purposes of devaluation, or at best confuses devaluation theory with optimal-tariff theory. A country that dominates world markets in one or more of its export products can increase its welfare by imposing a tax on those exports up to the point at which the additional gains from further increases in the foreign-currency price (arising from the willingness of foreign buyers to pay part of the tax) just compensate for the additional welfare losses arising from the tax-induced reduction in trade. If the devaluing country has already imposed such optimizing export tariffs — import tariffs alone will not do here, because in equilibrium they also discourage manufactured exports, on which the optimal export tax is surely zero for developing countries — then devaluation will not require their alteration unless the causes of the payments imbalance also happen to have altered the optimum export tax. A pre-devaluation rise in domestic costs and prices, leading indeed to the need for devaluation, will have improved the country's terms of trade beyond the optimal point. The objective should be to maximize net returns on exporting, not merely to prevent a deterioration in the terms of trade, and in these circumstances some lowering of export prices in terms of foreign currency will be desirable to stimulate foreign purchases.

Impact on wages and prices. Assessing the impact of devaluation on domestic prices and wages is exceptionally difficult, and only partly because price and wage data are sparse and of dubious quality for most developing countries. It is difficult also because exogenous events, expectational patterns based on the same history that led to the devaluation, and policies associated with but sometimes also at variance with the devaluation all may have important influences on both wages and prices.

It is useful first of all to distinguish between demand-induced and cost-induced increases in prices and wages. By conventional analysis, both should be present following a successful devaluation, for the improved trade balance will increase the claims on domestic output, and the devaluation will lead directly to an increase in the local prices of imports and other foreign-trade goods. We have seen, however, that devaluation may lead to a decline rather than an increase in demand for domestic output, and this alone would tend to depress prices.

The extent to which devaluing countries have taken the advice normally tendered to pursue deflationary monetary and fiscal policies will reinforce these devaluation-induced pressures. (There is of course no contradiction between deflationary pressures and observed price increases; the devaluation here is very much like an excise tax, which reduces demand by withdrawing purchasing power from circulation, but also raises local prices.)

Some depression in economic activity is frequently found following devaluation in developing countries, sometimes lasting only a few months, not infrequently lasting more than a year. While it is impossible to disentangle the deflationary effects of devaluation from those of autonomous policy measures designed to facilitate success of the devaluation, there is much circumstantial evidence to suggest that the extent of depression is a surprise to the authorities in the devaluing countries, that they have not adequately taken into account the depressing effects of the devaluation itself, or that they have exaggerated its expansionary impetus. In too many cases, of course, the need to devalue arises from pre-devaluation inflation that has not been brought fully under control even after devaluation, and these cases reinforce the views of those who insist on strongly deflationary measures to accompany devaluation; in those cases further deflation is necessary to make the devaluation work. But in other cases further deflation is not necessary, and on the contrary may aggravate the difficulties of the authorities in keeping the situation under control just as exports are expanding most rapidly. We return to this possibility below.

Despite the theoretical argument that under some circumstances domestic prices need not rise following devaluation, in fact they invariably do. This is partly because there is normally some effective devaluation for imports and export products, even when export subsidies are removed and imports are liberalized, and partly because the instinctive reaction of importers is to pass along to their customers any increase in costs that they have incurred. If they are already charging what the market will bear, however, these higher prices are not sustainable in a given monetary environment, and in the course of time competition among importers will result in a subsequent drop in prices —not to below the pre-devaluation level, but toward it, to an extent governed by the degree to which devaluation substitutes for import quotas as a restraint on imports. Such a pattern can be observed for about half of the few countries for which adequate monthly data on local prices of imports are available: prices rise sharply following devaluation, reach a peak three or four months later, and then gradually drop back, sometimes substantially. In an inflationary monetary environment, of course, one does not observe a post-devaluation decline in prices, but the rate of increase is reduced temporarily.

Higher prices will raise costs directly (especially since many imports are intermediate products and capital goods) and they will also stimulate demands for higher money incomes by local factors of production, especially wage and salary employees. But the cycle of wage and price increases should be self-limiting, unless all parties (including the government) attempt to maintain their real incomes in the face of rising import prices, or unless the devaluation stimulates price increases that are quite unrelated to increases in costs. In addition, for either case the monetary authorities must support the increase in money incomes with domestic credit expansion if domestic prices and incomes are to rise by the full amount of the devaluation without generating unemployment.

As we saw in the first section, an open deficit will reflect both a level of expenditure and a distribution of income that is not sustainable at the existing level of output and with the existing structure of taxation and expenditures insofar as they affect distribution. Devaluation requires that some real incomes go down and that total expenditures go down, even though aggregate income need not drop. If, however, those who benefitted from the initial disequilibrium insist on retaining the same level of real income, and if they have the market power through administered prices or through wage bargaining to stake out that claim in monetary terms, then the devaluation cannot succeed without general deflation leading to unemployment.

Second, the devaluation may stimulate price increases that were overdue in any case, but for reasons of law, custom, fear of public opprobrium, or simply inertia were not made earlier. This problem arises especially with public utilities subjected to an inflationary environment in the past. Being highly visible to the public, electric companies and bus companies do not readily raise their rates, and they are frequently under substantial government pressure not to do so. A currency devaluation, being little understood by the public, presents a natural occasion to raise such prices and lay responsibility on the devaluation. Several devaluations have led to rioting in the streets — as well as to larger wage claims — when an economically unrelated increase in urban bus fares occurred shortly afterward.

The monetary authorities are confronted with a dilemma; it is here that management of a devaluation is trickiest. Economists have been too little interested in these matters of management, even though they affect the final result. For, if the authorities do not allow some monetary expansion, unemployment and underutilization will result; and if they do allow it, the effects of the devaluation will be weakened and perhaps undermined. That various groups attempt to maintain their pre-devaluation incomes poses a more acute problem in the case of devaluation from open deficit than devaluation from suppressed deficit, since in the latter case much of the adjustment toward equilibrium income distribution will already have been made.

In the cases studied, price-wage spiraling does not generally get out of control, at least within the year or so following devaluation. Twelve months after devaluation, wholesale prices of imported goods will generally have risen, but by less than the devaluation (after having fallen from a peak reached three or four months after devaluation, as noted earlier); general wholesale prices will have risen less than this; consumer prices will have risen by about the same as wholesale prices; and, except where devaluations are small, manufacturing wages will have risen by less than consumer prices, showing a decline in real wages following the devaluation. Thus nonwage incomes—mostly profits and rents—show an increase in real terms a year later, and it is this increase that provides the incentive for the necessary reallocation of resources. This reallocation may ultimately restore and even raise real wages, depending on the relative factor intensities in the export industries as opposed to the protected industries.

Thus, to sum up briefly the experience following devaluations in less developed countries, it seems that official anxieties concerning the economic effects are exaggerated. The country experiences are highly diverse, which of course may be unsettling to cautious officials. But, for a hypothetical "representative" country, devaluation seems to improve both the trade balance and the payments position within the first year; it does not seem to lead to deterioration in the terms of trade of any consequence; it does lead to price increases, but not by amounts great enough to undermine the devaluation; price increases of imports are substantially less than the devaluation, suggesting that importer margins have been reduced; real wages fall; and there is a slump in economic activity following the devaluation.

The political impact. The fourth apprehension concerns the political fate of those responsible for the decision to devalue, and here experience is not nearly so encouraging. A naive test is whether the government fell within a year of the devaluation. In nearly 30 percent of the cases examined it did. Some of these changes in government were clearly unrelated to the devaluation—Costa Rica and Colombia each happened to have elections within the year, for example, and both countries have quite regularly voted out the incumbent government in recent history. But in other cases the devaluation and associated policies for managing the economy were the main issue on which the government fell. And there were near misses in both Israel (1962) and India (1966), where the ruling government came under severe criticism for its decision to devalue, but survived the crisis for more than a year.

A check was provided by examining a random control group of similar countries that did not devalue; governments changed within the year in only 14 percent of the control sample. Thus it appears that

devaluation — or the policies that led to the need for devaluation, or the policies that followed it — roughly doubles the chance that a ruling group will be removed from power. But the test will have to be refined considerably before it can be regarded as anything more than suggestive, in particular by selecting a control group from countries that seem to be in some balance-of-payments difficulty but do not manage it by devaluation, rather than just from all developing countries.

Ministers of finance fared much worse. Nearly 60 percent of them lost their jobs in the year following devaluation — half of them of course when their governments fell — compared with a turnover in a control group of only 18 percent. So the chances of ouster for the official immediately responsible seems to increase by a factor of three as a result of devaluation. But again the test should be refined, and in any case losing one's job as finance minister does not necessarily end a political career.

Conclusions

Managing a devaluation through the transition phase to final success requires both judgment and delicacy in handling. Consider first the problem of aggregate demand. As we noted, this frequently falls following a devaluation, and unless the economy was badly overheated beforehand it may lead to a drop in profits and employment. If the slump is sufficiently severe and prolonged, it will evoke calls for expansionary action by the government, for few governments these days can escape responsibility for developments in their economies. If the government then yields to these pressures, the expansionary policies may come when devaluation-induced export expansion is also taking hold with a lag, and thereby increase demand pressures on the economy at just the wrong time. The better course of action, on these grounds, would be to mitigate the slump — that is, to take some modest expansionary action with or immediately following the devaluation, contrary to the usual advice — and then to draw back with monetary and fiscal policy when new export demand is becoming important. Properly timed, this would reduce the social and economic costs of the slump and would prevent belated expansionary action, in response to political pressure, from undermining the effects of the devaluations on the trade balance.

On the other hand, we have also seen that there is often a sharp increase in prices in the period immediately following devaluation, as importers attempt to pass on to their customers all or most of the increased cost of foreign goods. To the extent that these price increases, some of which are not otherwise sustainable, get built into wages and other local costs, they will undermine the devaluation. Timing here becomes crucial. The authorities should do what they can to reduce the temporary increase in prices (lest it become

permanent), to make sure that it comes quickly and is brief, and to delay any wage settlements or administered price increases until after the peak of import prices has been reached and they are falling.

The size of the temporary increase in prices can be influenced by the speed and extent of import liberalization, and this argues for liberalizing imports at once with devaluation (or even before, if that can be done without signaling the intention to devalue), instead of waiting several months as most countries have done. With respect to the promptness with which prices of imported goods begin to fall after their initial rise, the slump in total demand reinforces the desired outcome, and this factor cuts against the suggestion above that the slump should be mitigated. The timing of prospective wage settlements should if possible be taken into account in choosing the time to devalue, the aim being to allow a considerable lapse of time between devaluation and major wage settlements. Necessary increases in administered prices, such as those of public utilities or of industries in the public sector, should also be delayed until the temporary rise is past and some prices are falling. Finally, the seasonality of food prices should be taken into account; devaluations immediately after a good harvest are more likely to achieve prolonged success than are devaluations after a poor harvest or before the new harvest is in, when food stocks are low and food prices are rising. Bad harvests, in particular, have greatly weakened the impact of several devaluations, notably those of India in 1966 and Colombia in 1962.

New investment in the export sector will take place only if investors believe that the change in relative prices achieved through devaluation is a reasonably durable one. Thus, in terms of the timing of export response, expectations about the capacity and the will of the authorities to keep the economy under control are as important as their actual success in doing so. A country with a poor record of monetary and fiscal management, and with a history of inflation, is likely to have greater difficulty in bringing about the required reallocation of resources than one with more favorable experience in these respects. A slump, deep if not prolonged, may (regrettably) be necessary in such a country in order to establish a new pattern of expectations. Thus there is a dilemma with respect to macroeconomic management in the period immediately following a devaluation and in the end the authorities must inevitably tailor their policies to the particular requirements of the country, to some extent even playing by ear.

At the same time, the apparent political consequences of devaluation — an increased probability that governments will lose their positions and ministers their jobs — is unsettling. For it means that there may be a sharp conflict between the personal interests of those in authority and the interests of the country, a conflict that has to be

resolved by those same persons, and which too often may be resolved at the expense of the country. This conflict perhaps plays an even greater role than the "social contract" considerations outlined earlier in leading to procrastination over devaluation and an attempt to substitute ad hoc restrictions and subventions.

It would thus be desirable to depoliticize the whole question of devaluation, by making it less traumatic both for the officials and for the public. This suggests another reason, in addition to more strictly economic ones, for moving toward greater flexibility of exchange rates along the lines of the gliding parity, as Brazil and Columbia have done. Gradual changes in exchange rates would not only eliminate the political jolt and major economic dislocations following a large discrete devaluation, with its sharp alteration of relative prices and hence of factor incomes, but would also avoid the major misallocation of resources that takes place as a disequilibrium builds up under a fixed exchange rate. Taking exchange-rate changes in small, frequent steps would also help to resolve the dilemma posed above: a slump would not be necessary to redirect resources into export industries.

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Exchange Rate Flexibility With Endemic Inflation: A Case Study of Brazil

William G. Tyler

[Brazil has since 1968 been adjusting its foreign exchange rate with great frequency in small steps. The virtues of this policy for countries with high rates of price inflation are examined in light of the Brazilian experience.]

Recent discussions of greater exchange rate flexibility have generally presumed relatively stable economies and, subsequently, rather small exchange rate adjustments. The "band proposal," for instance, presupposes that exchange rate fluctuations will occur within a rather narrow range, say 4 percent, of an established par value for a country's currency. Yet given the seemingly endemic inflation existing in many of the world's less developed countries, it appears doubtful that minor exchange adjustments around a certain par value could resolve the problem of balance of payments for such inflating countries. Recent Brazilian exchange policy provides a good case study in which to examine some of the issues raised by the use of a "crawling peg" in a rapidly inflating country. In August 1968 the Brazilian monetary authorities initiated a policy of devaluing the cruzeiro every four weeks or so instead of on a more infrequent and irregular basis. After several years of this mini-devaluation policy, some preliminary conclusions are possible. On the whole, the policy appears enormously successful.

For a country characterized by seemingly chronic inflation, whatever its causes, the choice is not one between a fixed exchange rate and exchange adjustment.

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The very fact that inflation continues intractably rules out changes in domestic prices and incomes as a means of adjustment. Barring uncommon circumstances, the exchange reserves for a country under a fixed exchange rate with inflation greater than that of its trading partners dwindle, and international credit dries up. Direct controls serve only temporarily as expedients. Eventually a change in the exchange rate is necessitated. Thus, the choice for a country experiencing high rates of inflation on a continuing basis is not between a fixed exchange rate and exchange rate adjustment; rather, it is between different methods of exchange adjustment.

There are basically four alternative methods of exchange adjustment available to the rapidly inflating country. A deficit country can employ: infrequent devaluations; more or less continual adjustments as with a mini-devaluation policy; a flexible exchange rate with government intervention to stabilize the market, discourage speculation, and iron out irregularities; or, a freely fluctuating market rate. Some would argue that the freely fluctuating, market-determined rates constitute the best method of exchange adjustment. Short of that, the managed flexibility implied in the mini-devaluation and interventionary flexible exchange rate regimes appear better than the awkward rigidity of the system of large infrequent devaluations.

The policy of the International Monetary Fund for some time has maintained an informal dichotomy in its interpretation of acceptable balance of payments adjustment measures. One set of adjustment rules is considered appropriate for the developed, industrial countries, while another more liberal set of rules is applied to the less developed countries. The Fund has been lax in insisting that newly admitted, less developed member countries establish a par value for their currencies. Still more important has been the gradual modification of the Fund position with respect to flexible exchange rates for less developed countries. Initially the Fund's position was one of begrudging tolerance, but more recently it has changed to one of downright advocacy and promotion of greater exchange flexibility for less developed countries under certain conditions.

Brazilian Growth and Exchange Rate Policy

In the period since World War II the Brazilian economy has experienced remarkable growth and rapid industrialization: GDP grew at an annual average rate of about 6 percent from 1947 until 1972. Accompanying this growth was persistent inflation. During the mid-1960s growth slackened, inflation accelerated until 1964, and the economy stumbled through a period of stagnation and crisis. It was only toward the end of the 1960s, owing in great part to effective financial and economic policy, that high rates of growth were restored. Inflation was gradually brought under control, and exports began to

grow after nearly twenty years of virtual stagnation. The increases in overall growth and in exports have continued vigorously since 1970.

Table 1: Macro Performance of the Brazilian Economy, 1947-1970
(Annual Growth Rates except for Exports)

	GDP (%)	GDP per Capita (%)	Industry (%)	Agri- culture (%)	Exports (US\$1000)	Rate of Inflation (%)
1947-1950	6.8	4.4	5.5	4.3	1,196	10.6
1951-1955	6.8	3.8	7.7	5.1	1,488	15.6
1956-1960	6.9	3.8	10.1	3.8	1,334	20.6
1961	10.3	6.7	10.6	7.6	1,403	33.3
1962	5.3	2.1	7.8	5.5	1,214	54.8
1963	1.5	-1.5	0.2	1.0	1,406	78.0
1964	2.9	-0.2	5.2	1.3	1,429	87.9
1965	2.7	-0.4	-4.7	13.8	1,595	55.4
1966	5.1	1.8	11.7	-3.2	1,741	38.8
1967	4.8	1.5	3.0	5.7	1,654	27.0
1968	8.0	5.0	13.2	1.5	1,881	28.1
1969	9.0	5.6	10.8	6.0	2,311	21.7
1970	9.5	6.5	11.1	5.6	2,739	19.8

Source: Centro de Contas Nacionais of the Fundacao Getulio Vargas, Conjuntura Economica, and Comercio Exterior Do Brazil.

Five phases of Brazilian postwar exchange policy can be identified. The first phase (1946-1953) was characterized by abuse-prone import licensing and a fixed exchange rate which became increasingly overvalued owing to domestic inflation. The period 1953-1959 witnessed an elaborate set of multiple exchange rates. On the import side, several categories were established according to "essentiality," and auctions were used to allocate the foreign exchange allotted to the different categories. A third phase from 1959 to 1964 entailed attempts at exchange unification with respect to both imports and exports. Gradually, however, these reform efforts disintegrated, and devaluation was again allowed to lag behind price increases.

To partially ameliorate the effects of overvaluation, the monetary authorities resorted to a system of making partial, de facto devaluation through the use of exchange premiums that varied according to product. A fourth phase in policy, lasting until August 1968, began in 1964 with new attempts to unify the exchange system. In August 1967, however, the monetary authorities stopped selling dollars to all comers, and a black market appeared literally overnight. In this fashion, as in the third phase, exchange unification took place in the initial stages only to later retrogress into a less unified system.

In August 1968 the monetary authorities devalued and announced that they would henceforth follow a new policy. Instead of devaluing infrequently (every twelve months or so) devaluations began to occur more frequently and in smaller amounts. From December 1964 through August 1968 there were four devaluations, averaging 18.4 percent each in nominal terms, with an average interval between them of 298 days. From the initiation of the mini-devaluation policy to September 1, 1971 there were twenty-four exchange rate devaluations averaging only 1.6 percent and occurring, on average, every 44 days. The time between adjustments has been in no case less than two weeks nor more than two months. Reasons given for the policy were to stop adverse movements of speculative capital and to improve export performance.

Trade Performance

To examine the impact of exchange policy, we estimate real exchange rates through deflating nominal export exchange rates by the Brazilian wholesale price index. The resultant exchange rate is then adjusted for dollar inflation. Between the initiation of the mini-devaluation policy in August 1968 (which began with a real devaluation of about 12 percent) and June 1971 the dollar-inflation-adjusted real exchange rate was permitted to fall by some 10 percent. Offsetting the decline in the real export exchange rate, however, has been the implementation of a host of fiscal incentives for export —mainly for manufactured products. These tax incentives were estimated in August 1971 to have an average value equal to some 50 percent of the domestic retail price for industrial exports. The implementation of the fiscal incentives for export had the effect of a system of multiple exchange rates: in addition to what amounts to a separate and lower coffee export exchange rate, the fiscal incentives provide various premiums to exporters of manufactures. Disregarding tariffs and export incentives, imports are made at essentially the same rate as non-coffee exports.

Exchange rate policy seems to have played a major role in contributing to Brazil's success in export expansion and diversification in recent years. In addition to the level of the real exchange rate,

stability in that level has important determining effects on export behavior. With the method of large periodic devaluations, a degree of uncertainty and risk is injected into the expectations of exporters that is not evident under a system of continual exchange rate adjustment. A potential exporter is exposed to risk that he does not face in the domestic market — the exchange rate. In the domestic market sales prices can presumably rise with production costs, but in the export market unit local currency receipts are fixed by the nominal exchange rate. When a devaluation occurs, export prices in local currency are fixed at a new, higher level. To predict his profit margin the exporter must be able to accurately forecast the size and time of the devaluations.

Frequent devaluations, or continual depreciation accompanying the expected inflation, do much to remove the uncertainty and exchange risk confronting the potential exporter. The greater evenness in unit local currency export receipts and the greater predictability of profit margins are believed to be important in promoting exports. The elimination of the on-again-off-again nature of export profitability brought by the large, periodic devaluations permits the exporter to make plans and marketing arrangements for selling his products in international markets. It also assures the foreign buyer a greater dependability of supply.

The argument that a relatively steady real exchange rate is more conducive to export expansion than one characterized by greater oscillations finds support in the Brazilian case. Between January 1963 and the initiation of the mini-devaluation policy in August 1968 the average monthly variation in the dollar-inflation-adjusted values amounted to a noteworthy 7 percent, while from then until June 1971 the average monthly variation registered a more modest 1.5 percent. At the same time, as shown in Table 1, Brazilian exports were experiencing a considerable expansion.

A series of in depth interviews with some thirty-five manufacturers was undertaken to examine the determinants of export behavior and the effectiveness of policy. Respondents were chosen to reflect differing export performance, firm size, product, and nationality of firm ownership. Almost without exception firms brought up and stressed the importance of the mini-devaluation policy in diminishing entrepreneurial risk by enabling them to more accurately predict export profitability. Furthermore, many firms emphasized that the implementation of the mini-devaluation policy was an indication of the government's sincerity in promoting exports and providing support for exporting firms.

Speculation and Short-term Capital Flows

A paramount question for flexible exchange rates is whether speculation is stabilizing or destabilizing. While there is much theoretical literature supporting both possibilities, the empirical work is somewhat limited and ambivalent. Under a policy of discretionary devaluation by the monetary authorities, the destabilizing speculative flow problem clearly exists. The longer the period between devaluations and the greater their magnitude, the greater will be the problem around the time of the expected devaluation. The periodic devaluation method has a speculation cycle all of its own. Prior to an anticipated devaluation speculators switch into foreign currency at an overvalued exchange rate, wait out the devaluation, and afterwards switch back into local currency at the new rate, thus realizing a windfall gain of the amount of the devaluation. With frequent minidevaluations, this speculative cycle is virtually eliminated.

In examining the Brazilian case, it is apparent that the institution of the crawling peg has not resulted in adverse speculative flows. In fact the heavy movement of capital that was witnessed around the time of devaluation under the previous, periodic jolt method of devaluation is no longer present. It is impossible to precisely isolate the effects of the mini-devaluation policy: a number of policies and financial sector reforms have also had a balance-of-payments impact, and it is impossible to disentangle their effects. Nevertheless, by examining some of these other policies and occurrences along with developments in the external accounts, we can form some judgments.

Major changes have been made with respect to interest rate policy and capital markets. Faced with legal restrictions on interest rates, the early 1960s witnessed increasingly negative real interest rates as the inflation accelerated. As part of the stabilization measures undertaken by the government, monetary correction (indexing) was extended to the major financial instruments in 1965-1966 [see Development Digest, January 1975, pp. 15-25]. Monetary correction coupled with greater than anticipated success to reducing inflation resulted in turning real interest rates from negative to positive in 1966 for the recently created, readjustable treasury bonds, and in 1967 for commercial bank loans. Since 1968 the monetary authorities have employed incentives in an attempt to induce commercial banks to reduce their loan rates.

Further institutional changes have occurred in the nascent Brazilian stock market. The government has undertaken numerous measures, such as a substantial income tax deduction for stock purchases and the exemption of capital gains from taxation, to stimulate the development and later to bolster the level of the stock market. Brazil's resurgence of economic growth plus the institutional measures propping up the market have given rise to an unparalleled stock market boom. From December 1968 to August 1971 the BV index of prices for stocks listed on the Rio de Janeiro exchange increased by over 18 times.

As can be seen from Table 2, the capital account in Brazil's balance of payments has witnessed important changes in recent years. Since the initiation of the mini-devaluation policy and other financial reforms, a net autonomous inflow of foreign capital has increased continually, accounting for overall balance of payments surpluses since 1968. Importantly, net private foreign loans and financing have risen dramatically. (Short-term private borrowing and lending are included under both the items for "Loans and Financing" and "Other.")

The capital inflow and resultant balance of surpluses have greatly increased Brazil's foreign reserves and presented the monetary authorities with the problem of monetizing the inflow of foreign credits. By the end of 1970 Brazil's holdings of liquid foreign assets had risen to an unprecedented high of US \$ 1.9 billion, or approximately two-thirds of her 1970 imports.

Table 2: The Brazilian Balance of Payments, 1961-1970 (In Millions of U.S. Dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Exports (FOB)	1,403	1,214	1,406	1,430	1,596	1,741	1,654	1,881	2,311	2,739
Imports (FOB)	-1,292	-1,304	-1,294	-1,086	-941	-1,303	-1,441	-1,855	-1,993	-2,526
Current Account Balance	-261	-423	-147	102	283	-33	-277	-503	-269	-622
Net Autonomous Capital Movements	327	245	13	92	79	205	66	541	850	1,068
Private Capital	224	187	42	67	75	133	84	569	757	891
Direct investment	108	69	30	28	70	74	76	61	124	108
Direct reinvestment	39	63	57	58	84	85	39	-	-	-
Loans and financing	346	178	93	54	113	180	304	337	604	944
Amortization	-210	-188	-141	-100	-132	-145	-211	-218	-197	-298
Other, including some short-term net capital flows	-59	65	3	27	-60	-61	-124	398	226	137
Non-Accommodating Government Capital	53	33	-54	-9	4	72	-18	-28	93	177
Loans and financing	183	165	169	172	250	328	226	246	449	519
Amortization	-117	-122	-229	-178	-172	-205	-233	-266	-336	-351
Errors and Omissions	49	-140	-120	-126	-31	-19	-34	-1	-20	39
Surplus (+) or Deficit (-)	115	-318	-254	68	331	153	-245	32	549	545
Commercial Arrears	-68	163	14	57	-182	-44	-8	-	-	-
Accommodating Government Financing	-47	155	240	-125	-149	-109	253	-32	-549	-545

Source: Banco Central do Brasil, Boletim, various issues.

The sizable net inflow of short- and medium-term capital since 1968 reflects a number of factors. Interest rate policy has brought about positive real interest rates, and a credit squeeze. Such conditions have resulted in a classic inflow of short- and medium-term capital. Such borrowing, however, has not taken the form of highly

mobile international capital seeking higher interest rates. It has resulted from local (foreign and domestic) firms, feeling the pinch of the credit squeezes, seeking and acquiring short- and medium-term loans abroad. Foreign firms especially have increasingly resorted to this practice; flows of capital between parent company and subsidiary allegedly have accounted for much of the borrowing. Changes in administrative ground rules, coupled with the favorable foreign investment climate, have made it attractive for foreign companies to bring money into Brazil as loans rather than having it registered as foreign investment.

Another apparent factor accounting for the recent short- and medium-term net capital inflow has been the stock market boom. The frenzy of activity in the stock market since 1968 appears to have dampened capital outflows. In addition, it has been alleged that much foreign capital has found its way into the Brazilian stock market.

A third factor is the advent of the mini-devaluation policy. While it is natural that short- and medium-term capital would flow to where there exists a liquidity shortage, prior to 1968 such capital flows were impeded for Brazil by the exchange rate regime. The unpredictability of exchange rate devaluation injected an element of uncertainty into the decisions of bankers, corporate treasurers, and speculators. The mini-devaluation policy, coupled with reforms in interest rate policy resulted in a greater openness of the economy's balance of payments.

Inflation

A charge frequently made against flexibility in exchange rates is that such flexibility will inevitably lead to inflationary tendencies. Without the ironclad discipline of a fixed exchange rate government authorities will supposedly be unable to resist the inflationary temptations of irresponsible monetary and fiscal policy. Under the present adjustable peg system, as exemplified by the rules of the IMF, exchange rates are subject to alteration in the event of "fundamental disequilibrium." Without unquestionable fixity in exchange rates, forcing balance of payments adjustment via the noxious medicine of adjustment in domestic prices and incomes (and/or direct controls), the "ironclad discipline" of the fixed exchange rate is nonexistent. The question becomes one of degree.

One might argue that large infrequent exchange rate adjustments tend to be more inflationary than more gradual adjustments, owing to the inflationary jolt given to the economy by a large devaluation. Following such a devaluation price and wage adjustments are usually made. The elimination of large devaluations spreads out the inflationary impulse resulting from exchange depreciation. Furthermore, with mini-devaluations the devaluation excuse to raise prices and increase wages is removed; other pretexts have to be found by businessmen and labor leaders. There is some suggestive evidence that this inflationary jolt argument connected with devaluation applies in Brazil. In examining the four large devaluations of December 26, 1974, November 16, 1965, February 13, 1967, and April 1, 1968, it was found

that in all cases the rate of inflation (as measured by the cost of living index) for the three months following the exchange rate adjustment exceeded that for the three months prior to the devaluation. In only one case was the difference less than 10 percent.

Whether infrequent or continual devaluations are slightly more or less inflationary is not a question of great concern in the Brazilian case, however. Whichever type of exchange regime the monetary authorities adopt, Brazil in its present institutional and economic circumstances will continue to experience inflation greater than its trading partners. But the Brazilian experience at least indicates that frequent changes in a country's exchange rate need not result in unbridled inflation. As was seen in Table 1, the Brazilian inflation has not accelerated since the initiation of mini-devaluations. Instead, the rate of inflation decreased — not as a result of the mini-devaluation policy but of other policies. The use of more or less continual exchange adjustment has not resulted in a series of irresponsible monetary and fiscal measures.

Administrative and Political Dimensions

While the rate of inflation in large part depends upon the suitability of financial policy, there are reasons to believe that in Brazil the administrative and political constraints to the implementation of such financial policies are eased in some measure for the mini-devaluation policy. When compared to the periodic jolt method of annual devaluation, the Brazilian mini-devaluation policy offers advantages of increased independence in monetary policy, apparent greater ease in devaluing and maintaining a certain real exchange rate, and increased protection from accusations of administrative abuse and corruption.

With the previous system of large periodic devaluation serious constraints in the administration of policy were encountered by the Brazilian monetary authorities. The devaluation cycle was accompanied by events resulting in considerable pressures and a subsequent loss in monetary policy independence. Following a devaluation large inflows of foreign capital occurred which were accounted for in large part by subsidiaries of foreign firms receiving loans from their head offices abroad. Such a capital inflow resulted not only in the problem of monetizing foreign credits in cruzeiros but also a clamor among Brazilian firms for increased access to credit. Therefore, while the accepted noninflationary monetary doctrine would be to sterilize the increase in foreign reserves through offsetting domestic credit contraction, political realities, stressing the unequal distribution of benefits and the discrimination against less well-connected national enterprises were translated into strong pressures militating not only against such contraction but in favor of expansion. These pressures in general proved irresistible, thus serving to scuttle anti-inflationary monetary policy in the months

following a devaluation despite the initial good intentions and resolutions of the monetary authorities. As the devaluation cycle wore on, other pressures arose. With approaching devaluation foreign subsidiaries began to repay loans from their head offices. Since these firms did not contract new loans from abroad, they exerted pressure on the Brazilian monetary authorities to supply the credit required to maintain their production. Once again the pressures were expansionary. Since the initiation of the mini-devaluation policy, monetary policy has exhibited greater independence from these pressures associated with the devaluation cycle.

The mini-devaluation policy is also important in overcoming nominal exchange inertia and reducing the political pressures associated with devaluation. Despite the fact that exchange rate selection under both the periodic and mini-devaluation policies is a discretionary matter, political constraints appear to differ under the two systems. There is a definite political resistance to a once-in-awhile, large devaluation. A large infrequent change in the exchange rate is seen as cataclysmic event — an explicit admission of failure by the government. In addition to the discomfiture caused by the political embarrassment of a large devaluation, the government may have other reasons for delaying or reducing devaluation. It may find that it has its own budgeting and financial interests at stake as an importer. In the Brazilian case considerable imports are made by government enterprises.

Such pressures for delaying or reducing devaluation are not so readily apparent with the mini-devaluation policy. Small changes are far less dramatic than large changes. By introducing a high degree of automaticity into exchange rate policy, Brazilian policymakers have shielded themselves from political pressures attendant on devaluation. The initiation of the mini-devaluation policy in Brazil has also diminished the scope for administrative abuse and corruption. With no obvious large windfall gains possible for insiders with access to privileged information concerning devaluation, the suspicions and accusations of administrative malfeasance at the time of devaluation are diminished. Under the previous exchange devaluation regime, rumors and accusations were rife, questioning government integrity and threatening political consequences. With the mini-devaluation policy, the automaticity of the system succeeded in defusing a potentially political issue.

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The Operations Account System in French-Speaking Africa

Holger L. Engberg

[The monetary arrangements in the 14 west and central African countries having a common currency, the CFA franc — which is tied to the French franc — are described. The system has provided an exchange rate stability which has considerable value for national development; the principal liability is a dependency on French policies.]

Franco-African relations have come under increasing fire during the past few years. African dissatisfaction with various aspects of the co-operation agreements between France and her former colonies is not new, but has recently been more clearly articulated and specifically focused on the structure and regulations of the franc zone which, it is argued, tend to make African states excessively dependent on France. This applies particularly to the monetary agreements. Twelve former French West and Central African states share a common currency, the C. F. A. franc, issued by two multi-national central banks in Paris. It is freely convertible into the French franc at a fixed rate of exchange 50 C. F. A. F. = 1 F. F. The French treasury guarantees the external convertibility of the C. F. A. franc, in return for which the African states pool all their foreign exchange earnings in Paris, and use the French franc as a transaction currency for buying and selling other currencies.

Those governments which have these monetary agreements with France are now seeking to modify them in order to achieve greater flexibility in national

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credit policies, and some control over the accumulated foreign exchange reserves. Questions have been raised by African leaders about the parity rate of exchange with the French franc in connection with the French devaluation in 1969, the establishment of dual exchange markets in 1971, and the international monetary unrest in the following period. The C. F. A. franc is widely considered overvalued at the existing rate of exchange, and would collapse if France withdrew its convertibility guarantee.

Some changes have already taken place, and France has generally assumed a flexible position in her negotiations with the African states. Mauretania has decided to leave the West African Monetary Union and establish a national currency, but may still remain in the franc zone. New agreements for monetary co-operation between France and the five Central African states have been signed, providing for more African participation in the multi-national central bank of that region. Modifications can also be expected in the arrangement under which France controls and manages the foreign exchange reserves of the African states. Other probable changes include the relocation in Africa of the headquarters of the two multi-national central banks, as well as the more rapid Africanization of their management.

However, the basic principle of free convertibility between the C. F. A. franc and the French franc, and the French treasury guarantee of the external value of the African currency, have been reaffirmed repeatedly. This is the same as saying that the operations account must be maintained, because it is through this system that the French treasury makes effective its guarantee of the external convertibility of the C. F. A. franc. Various aspects of these unique currency arrangements are explored in some detail in the following sections.

Operations Account Transactions

Each of the two multi-national central banks, La Banque centrale des etats de l' Afrique de l' ouest (B. C. E. A. O.) in West Africa, and La Banque des etats de l' Afrique centrale (B. E. A. C.) in Central Africa, is accorded an operations account at the French treasury. Practically all transactions involving the sale and purchase of C. F. A. francs appear as debits and credits on the operations account of the central bank concerned. In addition, La Banque centrale du Mali and L'Institut d' emission malgache each has an operations account.

<u>BCEAO</u>		<u>BEAC</u>		<u>National Accounts</u>
Dahomey	Senegal	Cameroun	Congo-	Mali
Ivory Coast	Togo	Central African	Brazzaville	Malagasy
Mauretania	Upper Volta	Republic	Gabon	
Niger		Chad		

For example, a resident of Senegal requiring U.S. dollars first obtains French francs by selling C. F. A. francs, and then purchases dollars for French francs. The sale of C. F. A. francs appears as a debit on the operations account of the B. C. E. A. O., and the purchase of dollars is a debit on the exchange account of the West African central bank with the French stabilization fund. Likewise, a coffee exporter in the Ivory Coast earning French francs sells his export revenue for C. F. A. francs and the operations account of the B. C. E. A. O. is credited. All uses of foreign exchange, including French francs, by any of the member countries of the two multinational central banks result in debits on the respective operations accounts, and all supplies of non-C. F. A. currencies result in credits. Thus, official French grants and loans to the overseas franc zone appear as credits; and all dividends, interest payments, and other remittances from C. F. A. countries to France and elsewhere result in debits. Moreover, practically all transactions among the different parts of the franc zone appear on the respective operations accounts. For example, remittances from Senegal to Gabon are recorded as debits on the operations account of the West African central bank, and as credits on the account of the B. E. A. C. in Central Africa. Changes in the net balance of this account consequently reflect the collective over-all balance-of-payments position of the various parts of the franc zone.

In principle, the French treasury grants unlimited overdraft facilities on each operations account, and it is this feature which assures the convertibility of the C. F. A. franc since it permits the participating countries to draw French francs — without regard to the foreign exchange earned. There is a progressive interest rate charged by the French treasury on any net debit balances, but the rate cannot exceed the basic discount rate posted by the Bank of France. Likewise, net credit balances earn an interest equal to the discount rate.

The operations accounts were opened at the French treasury, not at the Bank of France, in order to minimize the impact of overseas franc zone finances on the metropolitan economy. When the automatic overdraft facilities are used by an associated central bank, such as the B. E. A. C., to cover an excess of payments abroad over receipts from outside the region (the bulk of which represents transactions with France), the French treasury finances the overdraft, either through the budget or by selling long-term securities, thus offsetting the expansionary impact on money supply and incomes in metropolitan France. If the operations account had been maintained with the Bank of France, the overdraft by B. E. A. C. would represent reserve creation.

In summary, then, the operations account is a 'discount window' at the French treasury for each of the multi-national central banks in

former French West and Central Africa, and for the central banking institutions in Mali and the Malagasy Republic. Financial institutions operating in these African states, including the African treasuries which also act as financial intermediaries, acquire additional reserves from the central bank of their area when the demand for credit is high; and the central bank may, in much the same fashion, obtain additional (foreign exchange) reserves from the French treasury, if it should be necessary.

Limitations on the use of the Operations Account

This 'discount window', however, is not wide open. The extent to which an operations account can be in deficit is, in fact, limited. It would be unreasonable, after all, to expect the French treasury to permit unlimited capital transfer to the overseas franc zone at the discretion of locally administered central banks. The participating independent states could then engage in highly expansionary policies financed by overdrafts on the regional operations account. This would be similar to a commercial bank undertaking an ever-expanding loan policy with the knowledge that it can borrow unlimited amounts of reserves from the central bank.

A number of safeguards exist to limit the use of overdraft facilities. First, there is an implicit code of behavior and a tendency to play the game accordingly, since unreasonable deviations by one participating country obviously will lead to censure by the others (and by France). Secondly, France is heavily represented on the governing boards of the African central banks, and this ensures effective supervision of local credit operations. For example, the B. C. E. A. O. in West Africa has a board of directors with two-thirds of its members appointed by the participating African states, and one-third appointed by the French Government. For this Bank, the drawing rights on its operations account are limited by required minimum ratios between the foreign exchange reserves (French francs) and its deposit liabilities. Thus, if the external reserves fall to 20 percent or less of the bank's demand liabilities throughout a 60-day period, the board of directors must meet to consider appropriate measures. If the ratio falls to 10 percent or less over a 30-day period, the board must meet to decide whether to raise the discount rate or take other measures. Presumably, the board of directors can decide that the fall in external reserves (or the increase in the bank's demand liabilities) is of a temporary nature which does not warrant a tightening of credit. However, if restrictive measures have been introduced, they can be removed only by a three-quarter majority of the directors which, in fact, gives the French Government the power of veto.

In addition to these provisions contained in the statutes of the B. C. E. A. O. , the separate agreement between France and the West African Monetary Union stipulates that if the operations account shows a debit throughout a 60-day period, certain measures will have to be taken automatically. These include an increase in the discount rate, and a reduction of rediscount ceilings and other short-term credit facilities in those member states which have made heavy net drawings on the common operations account. The convertibility guarantee of the French treasury is in this way protected by successive warning signals given, first, by the foreign exchange reserves in relation to central bank demand liabilities (mostly currency in circulation) and, later, by the net balance on the operations account. In addition, it should be noted that French Government representatives always participate most directly in the formulation of over-all credit policy.

Thus, the operations accounts are based upon formal agreements, heavy French representation on the African central banks, and an implicit understanding on the part of all member states to play according to the rules of the collective game. It has so far been the French position that a similar agreement cannot normally be extended to national central banks which individual countries may wish to set up. When Guinea and Mali left the franc zone and established separate national banks (in 1958 and 1962, respectively), their participation in the operations account of the West African monetary system was automatically severed.

But when the central bank of Mali was reorganized in 1968, a program of monetary reconstruction was undertaken with French assistance. It was envisioned that Mali eventually would become a member of the West African Monetary Union, and the central bank was consequently given an operations account at the French treasury during the transition period. Another special case is the Malagasy Republic. Geographical remoteness prevented this huge, isolated island from becoming a member of either of the two francophone regional central banks on the African continent, and a separate central bank was established with its own operations account. However, France is represented on the management of this central bank in such a way as to ensure control over the credit policy.

An Evaluation of the System

The operations account is the cornerstone of the French franc zone, and an evaluation of the benefits and costs of this arrangement is, consequently, essentially an evaluation of the entire monetary arrangement between France and her former colonies. Domestic monetary stability in the African states is obviously a benefit of the first order. This stability is partly a result of the built-in counter-inflationary mechanism which permits an automatic increase in the supply of

imported goods and services in response to any rise in aggregate demand caused by, for example, improved world market prices or large crops of the commodities exported by these countries. The free and unlimited convertibility of the C. F. A. franc into French francs — and thereby into most other currencies for current-account transactions — secures a highly elastic supply of consumer goods as domestic demands shift. Although individual member countries have delegated their monetary autonomy to the regional central bank, they can still exercise some control over imports through tariffs and even quotas. However, the significant point is that an increase in effective demand can be satisfied through greater imports.

This means that the serious foreign exchange crises, which have been of much concern to other less-developed countries, are practically unknown to the African member states of the franc zone, and this has, of course, had important implications for the continuity of their development policies. While countries such as Ghana, Guinea, and Mali have had to reduce their development expenditures or entirely restructure their development plans because of shortage of foreign exchange, the francophone countries, individually, have been in a position to largely ignore this constraint.

Moreover, the stability of the C. F. A. franc has been accompanied by accumulation of fairly modest international reserves. The West African central bank has been a relatively large creditor on its operations account, and its reserve holdings doubled between 1962, when it was established, and 1972. The Central African bank's international reserves rose much more slowly, and the reserves of L'Institut d'émission malgache remained largely unchanged between 1962 and 1972, although there were wide fluctuations from year to year. Using the total import bill as a denominator, the West African reserves were not much larger at the end of 1972 than they were ten years previously, and the Central African and Malagasy reserves were certainly smaller in terms of imports. Since foreign reserves represent real resources which are tied up to protect the external convertibility of a currency, a country is better off the less is accumulated in this way.

Thus, the convertibility of the C. F. A. franc is not a function of the foreign reserves held by the francophone African central banks, which are relatively modest; rather, the accumulation of foreign reserves is, at least partially, a consequence of convertibility. This was well illustrated in 1962 when rumours were circulating that Senegal wished to withdraw from the West African monetary system and establish a national central bank. Very large capital transfers took place from Senegal to France, which were not checked until the Government unambiguously declared that Senegal would remain a member of the franc zone and of the regional central bank. Similarly, when Mauretania in late 1972 announced her intention to leave the West African Monetary Union and issue a national currency, a complete system of controls over all

uses of foreign exchange was necessary to prevent serious leakages of foreign reserves, despite Mauretania's comfortable reserve position at that time.

The operations account guarantees the stability of the C. F. A. franc and its convertibility into French francs at a fixed rate of exchange, but it is also evident that the monetary affairs of the African countries vis-a-vis the rest of the world are in the hands of France. Indeed, the C. F. A. franc is convertible internationally because the French franc is convertible, and if exchange restrictions are introduced in France, as they were in May 1968, these restrictions automatically affect the convertibility of the C. F. A. franc. When the French franc is devalued, as in August 1969, the C. F. A. franc is devalued by the same percentage to maintain the fixed rate of exchange. The establishment of a dual exchange market for the French franc necessitates a similar arrangement in all the African member states of the franc zone. And when the French franc floats with other European currencies against the dollar and the yen, the C. F. A. franc has to join the float. This follows implicitly from the exchange regime of the franc zone which resembles the classical gold standard.

Devaluations and a floating exchange rate, separation of exchange transactions, and other financial measures implemented by France in response to international monetary pressures and uncertainties in the industrial northern hemisphere may be disruptive to the African economies in their efforts to maintain domestic stability. This is particularly the case for those African countries which have succeeded in developing significant trade with North and South America, Japan, and other non-European states. Likewise, inflationary pressures in France are easily transmitted to the African economies via the trade and services balance, since imports from France, which still make up more than 50 per cent of the import bill (in particular, of consumer goods), become more expensive.

Conclusions

The operations account system has for more than ten years provided 14 African countries, most of which are among the poorest of the less-developed world, with a common currency which is freely convertible into French francs at a fixed exchange rate. This system was formulated in the late 1950s, and implemented in the early 1960s at a time when the French franc was regaining its international strength and status as one of the world's major currencies. The operations account guarantees the convertibility of the C. F. A. franc, and partially removes the balance-of-payments as a constraint on the development efforts of individual member countries of the French franc zone. The price paid for this unique relationship consists of other constraints, including monetary dependence on France (the former colonial metropole), and fixed exchange rates among the overseas members of the franc zone, regardless of significant differences in their growth rates and development paths over the years.

When the British colonies in West and East Africa became independent, central banks were established in each of the new nation-states. They issued their own currency and began to manage their domestic money supply and credit volume primarily in pursuit of national policy goals. They hoped to break the link between their domestic economies and balance-of-payments fluctuations, most of which were caused by factors outside their own control; and they largely failed, as they had to, where foreign exchange reserves are limited and the bulk of economic activities are geared to production for export.

The former French colonies in West and Central Africa (and the Malagasy Republic) chose a somewhat different pattern. The colonial currency mechanism was revamped and expanded, and decision-making processes were changed to allow for greater participation by the new, independent states. But the former colonial power maintained ultimate and effective control over aggregate credit creation and the pooled foreign exchange reserves. Under this system the link between individual economies and balance-of-payments fluctuations was broken; domestic credit expansion and development programs were continued, despite adverse balance-of-payments trends in individual countries, because they were members of a larger monetary area with ultimate overdraft facilities at the French treasury. Thus, the former French colonies, individually, achieved at least some degree of flexibility by continuing their monetary dependence on France, while the former British colonies, breaking their colonial monetary ties in order to gain greater flexibility, ended up with less.

The political significance of this monetary dependence on France, however, cannot be ignored. While there are no indications that the C. F. A. franc zone is about to break up, dissatisfaction with specific features is widespread and growing. One of the principal targets of criticism is the fixed and unchangeable relationship with the French franc, and particularly the failure of the French Government to consult members of the overseas franc zone concerning parity changes of the French — and thereby the C. F. A. — franc. In this connection, the official French position has been that parity changes are a matter for France and France alone, because she is guaranteeing the C. F. A. franc. The political dimensions of the entire relationship — trade and aid, as well as monetary — between France and her former colonies will undoubtedly increase in importance as the African states proceed in their development efforts, and the economic benefits from this relationship are increasingly offset by the political costs of continuing to subject themselves to French economic dominance.

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